1985-1986 BUDGET

Additional Information

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APPENDIX I
The Economy in 1984

THE ECONOMY IN 1984

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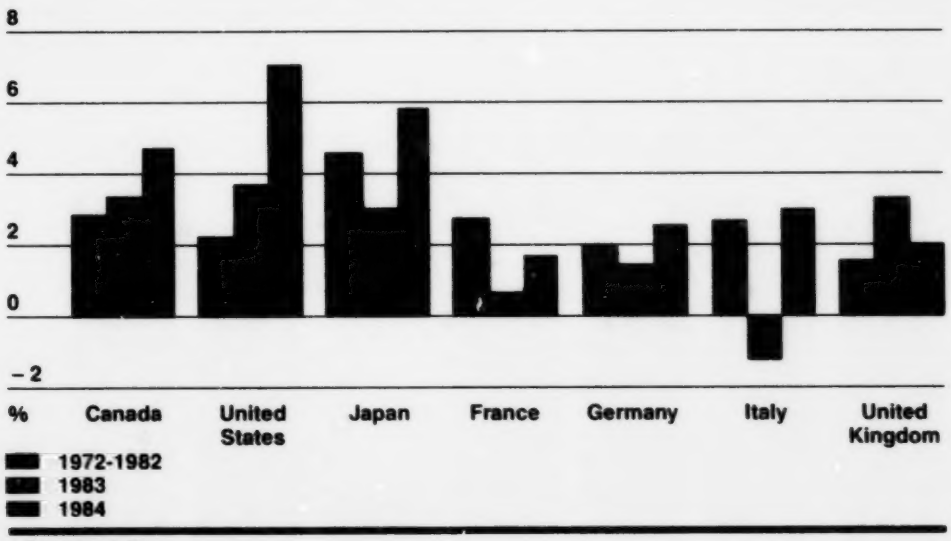
1. THE INTERNATIONAL SITUATION

Economic recovery continued at a rapid pace in 1984 in the OECD countries as a whole. The volume of the gross national product of these countries increased by 4.75% last year, compared to 2.6% in 1983. The United States felt the strongest expansion, with a 6.9% rate of increase. Higher domestic demand in the United States, combined with the strong climb of the U.S. dollar, triggered a 27% rise in the volume of imports for that nation. The strength of the United States economy was also passed on to its main trading partners, particularly Japan and Canada, the growth rates for which in 1984 were 6.0% and 4.7% respectively. In the other major OECD countries, the increase in production held steady at 2% to 3%.

GROSS NATIONAL PRODUCT* OF SELECTED OECD COUNTRIES
(annual percentage change)

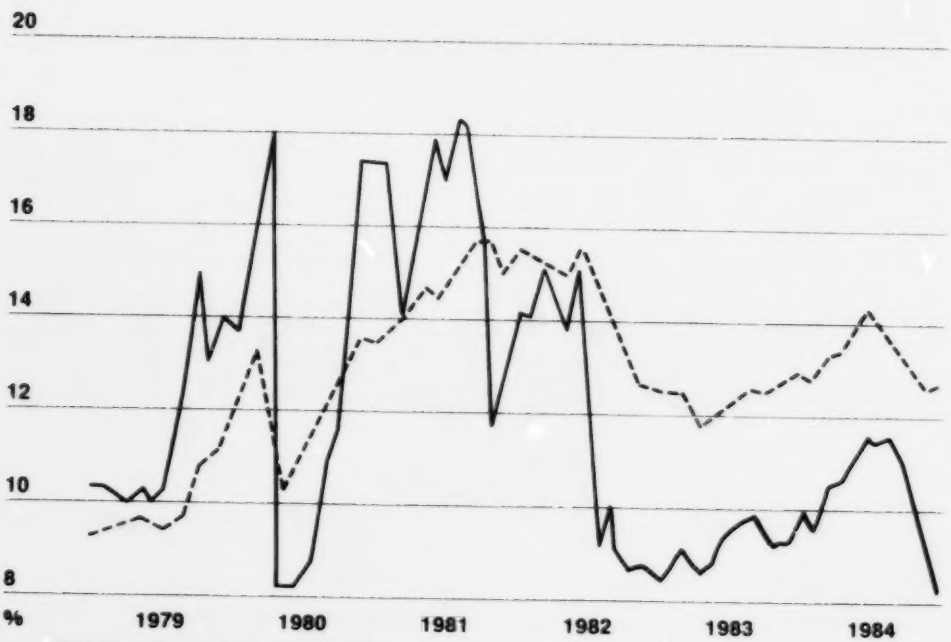


* Constant dollars

Sources: OECD Economic Outlook, December 1984.
Data Resources Inc., Review of the U.S. Economy, February 1985.
Ministère des Finances du Québec.

In the United States, the increased demand for credit which accompanied the strong expansion in the economy during the first half caused pressure on the financial markets, which made short-term interest rates rise by more than 200 basis points. The economic slowdown which followed, combined with a less restrictive monetary policy during the last quarter, led to a marked drop in interest rates. The short and long-term rates dropped by 330 and 150 basis points respectively between July and December. In December, the 90-day commercial paper rate reached its lowest level since the middle of 1980, as is shown in the graph "Short and Long-term Interest Rates — United States".

SHORT AND LONG-TERM INTEREST RATES — UNITED STATES



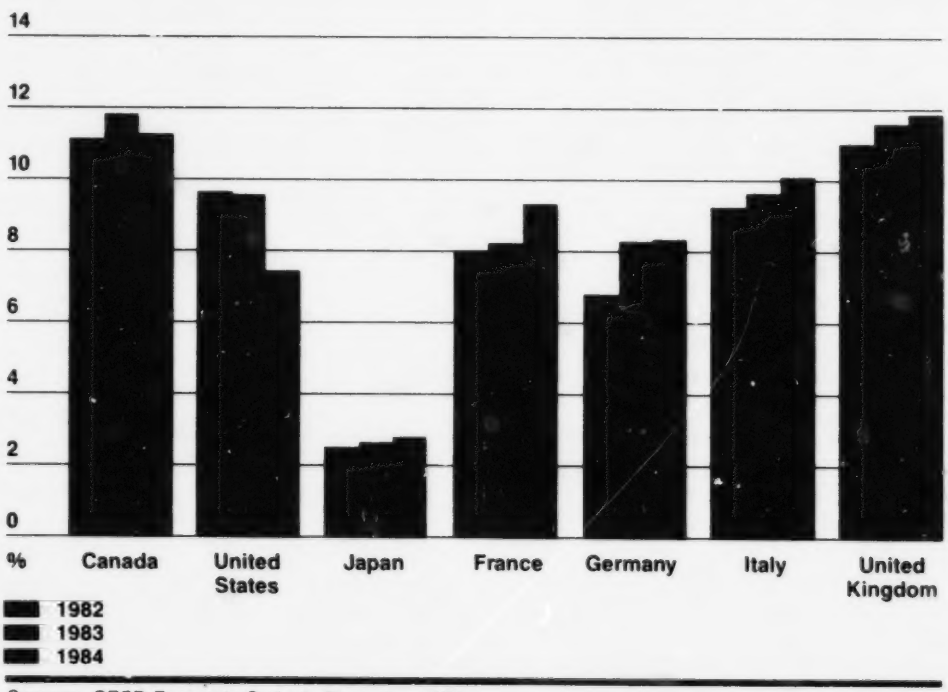
Source: Bank of Canada.

Beyond the short-term fluctuations, real interest rates, especially long-term ones, remained high in the United States both in relation to their historical average and as compared to those prevailing in other countries. The yield spread between U.S. interest rates and those of other countries made it possible to finance a deficit in the current account balance of more than $100 billion, without downward pressure on the value of the U.S. dollar.

On the contrary, trends in the net flow of capital between the United States and the other countries even made possible an increase in the value of the dollar, by comparison with the average of the currencies of its major trading partners, of 12% in 1984 and 75% since January 1980. However, this strong increase in the value of the dollar on the world exchange markets caused a loss of competitiveness for U.S. industry which has been estimated at more than 30%.

The strong increase in output in the United States brought about a significant decrease in the rate of unemployment, which dropped from 9.6% in 1983 to 7.4% in 1984. Economic growth was also unevenly distributed among the major OECD countries last year, Canada being the only other country to benefit from a decline in its unemployment rate. The problem of underemployment of young people remained a major concern in most of the industrial nations, while their jobless rate is on average two times higher than for the population as a whole.

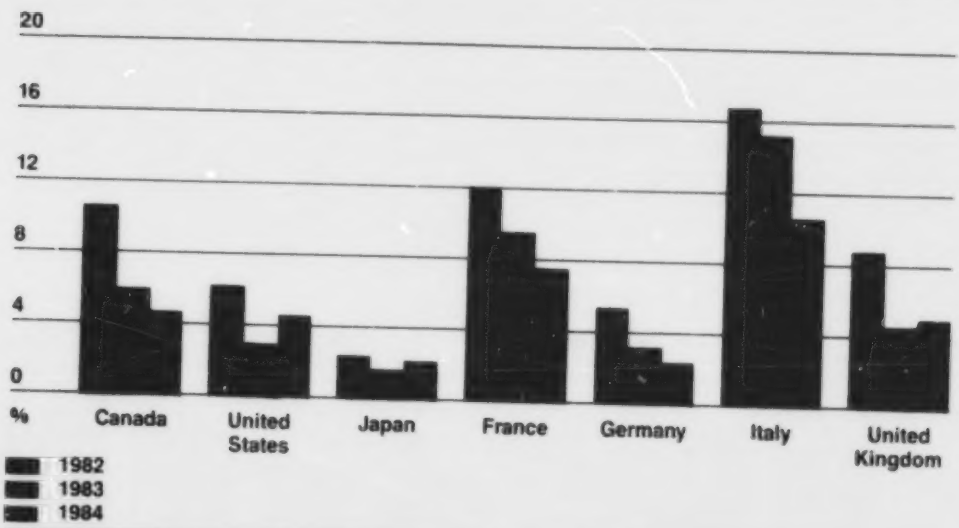
UNEMPLOYMENT RATE OF SELECTED OECD COUNTRIES
(annual percentage change)



Sources: OECD Economic Outlook, December 1984.
Data Resources Inc., Review of the U.S. Economy, February 1985.
Labour Force Survey, S.C. 71-001.

Although inflation continued to wane, the gains were much more modest than in 1983, when a drop in the rate of inflation of all the main OECD countries had been observed. In 1984, three nations, the United States, Japan and the United Kingdom, saw a slight increase in their inflation rate as is shown in the graph, "Consumer Price Index of Selected OECD Countries".

CONSUMER PRICE INDEX OF SELECTED OECD COUNTRIES
(annual percentage change)



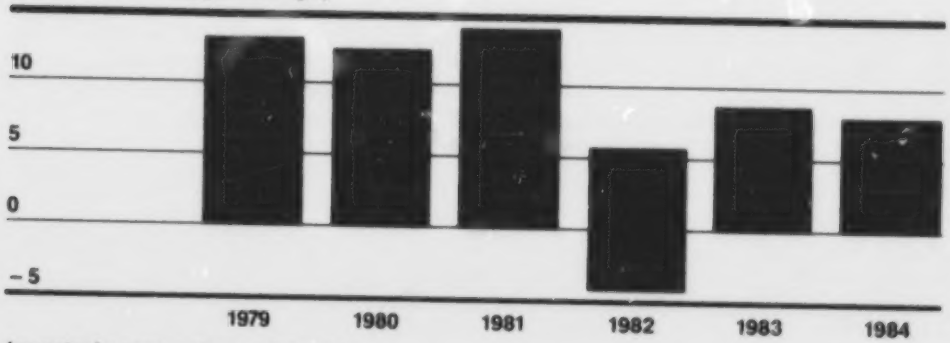
Sources: Consumer Price Index, S.C. 62-001.
Data Resources Inc., Review of the U.S. Economy, February 1985.
Data Resources Inc., Japanese Review, December 1984.
Data Resources Inc., European Review, January 1985.

2. THE CANADIAN SITUATION

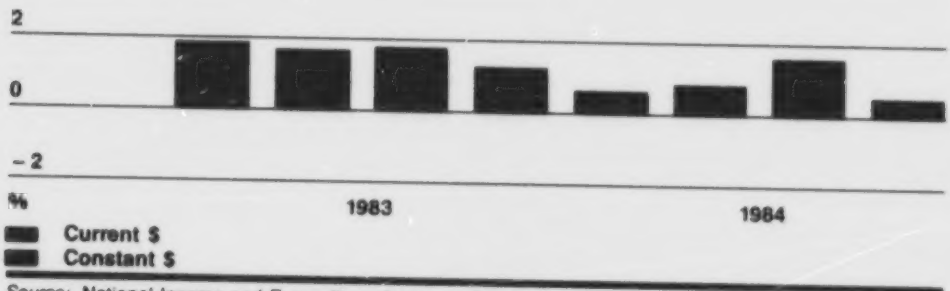
The growth rate of the Canadian economy rose in 1984, as the volume of the gross national product grew by 4.7%, compared to 3.3% in 1983. This performance is largely attributable to the external sector, as well as to the building up of inventories. Furthermore, domestic demand increased at a much less rapid pace, by 2.7%.

The increase in output led to a 2.2% rise in productivity. The growth in employment reached 2.5% and the unemployment rate dropped from 11.9% in 1983 to 11.3% last year. At the same time, the inflation rate again fell in 1984, to 4.3%, despite a depreciation of the Canadian dollar by some 5.0%, as compared to the U.S. dollar. In fact, in 1984, Canada experienced its lowest rate of inflation since 1971.

GROSS NATIONAL PRODUCT — CANADA
(annual percentage change)



(quarterly percentage change)



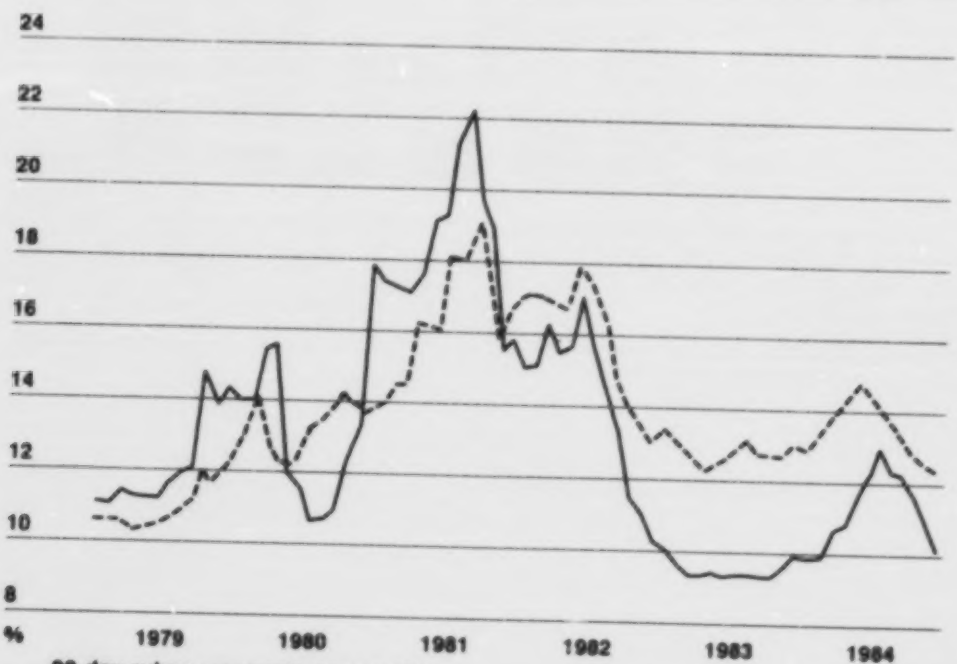
Source: National Income and Expenditure Accounts, S.C. 13-001.

Monetary Policy and Interest Rates

As has generally been the case over the last few years, Canadian interest rates reflected the changes in U.S. financial markets to a considerable extent. The way in which the Bank of Canada's monetary policy was applied was largely determined by the weakening of the Canadian dollar vis-à-vis the U.S. dollar. Interest rates rose in the first half, and dropped in the second, in line with the movement observed in the United States.

Following the relative slackening off of the North American financial markets during the second half of 1983, the cost of credit increased in the United States as of the spring of 1984 and the value of the Canadian dollar dropped considerably, thus prompting the Bank of Canada to tighten up its monetary policy. The spreads between short-term interest rates in Canada and the United States, which were practically nil at the end of 1983, jumped to 200 basis points last July, at the peak of the exchange rate crisis. From December 1983 to July 1984, interest rates in Canada thus rose by 300 points for 90-day paper, and from 100 to 150 points for long-term bonds.

SHORT AND LONG-TERM INTEREST RATES — CANADA



— 90-day prime corporate paper rate.
--- Average yield on corporate long-term bonds, McLeod, Young, Weir.

Sources: Bank of Canada.
Ministère des Finances du Québec.

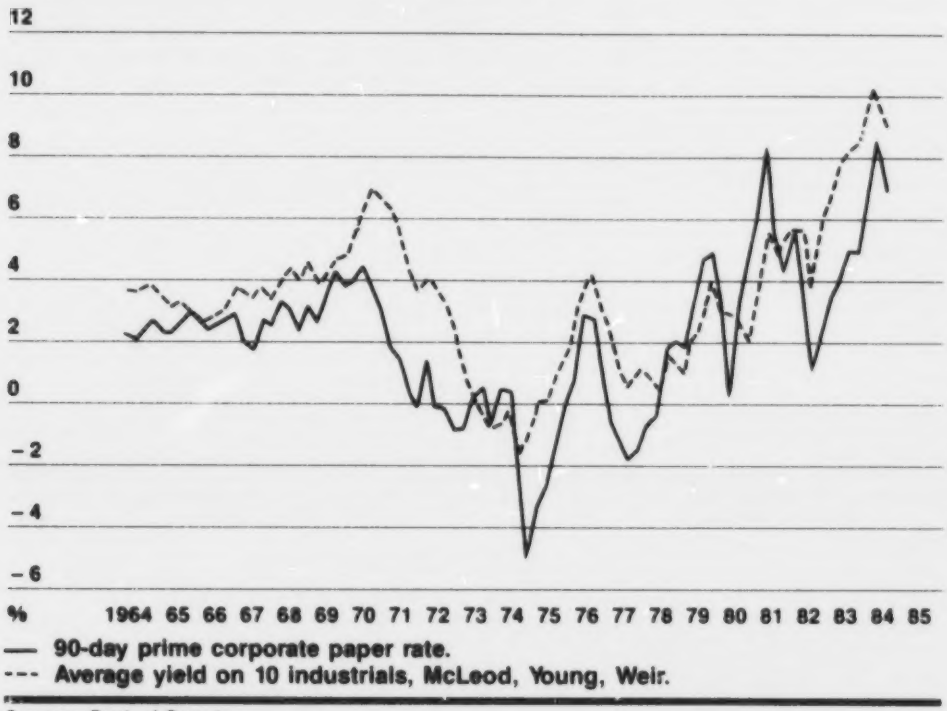
SELECTED INTEREST RATES

	Percentage level			Change in basis points
	1983	1984		
	Dec.	July	Dec.	Dec. 83 to Dec. 84
UNITED STATES				
90-day commercial paper	9.90	11.60	8.33	-157
Prime business loan rate	11.00	13.00	10.75	- 25
Average yield on industrial bonds (Moody's)	12.74	13.99	12.46	- 28
CANADA				
90-day corporate paper	9.85	12.95	10.00	+ 15
Prime business loan rate	11.00	13.50	11.25	+ 25
Average yield on corporate long-term bonds (McLeod, Young, Weir)	12.95	14.13	12.40	- 55

Sources: Bank of Canada.
Ministère des Finances du Québec.

Toward the end of the summer, through the impetus of a movement begun in the United States, interest rates decreased appreciably in Canada. Short-term interest rates thus fell at year-end to their December 1983 level. However, since the Canadian dollar remained weak and vulnerable in the face of the unprecedented surge in the U.S. dollar on most markets, the Bank of Canada maintained spreads with U.S. rates in the order of 150 to 180 points in the short end of the market.

SHORT AND LONG-TERM REAL INTEREST RATES — CANADA



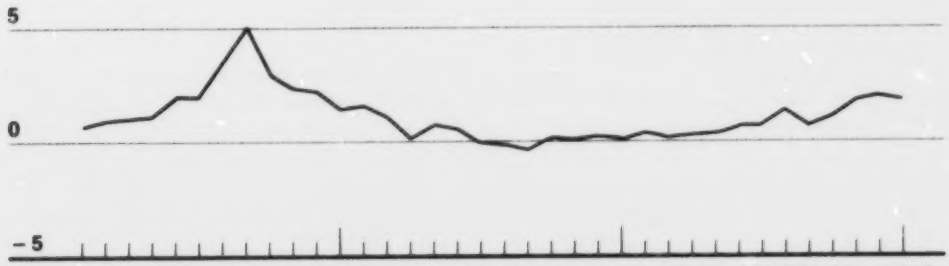
Sources: Bank of Canada.
Ministère des Finances du Québec.

For 1984 as a whole, both short and long-term interest rates settled at average rates higher than those recorded during the previous year. Taking into account the lowered inflation rate, "real" interest rates increased considerably, reaching between 7% and 9% depending on the date the bonds mature. The graph "Short and Long-term Real Interest Rates — Canada" shows that these are unprecedented levels, when compared with the rates for the last 20 years.

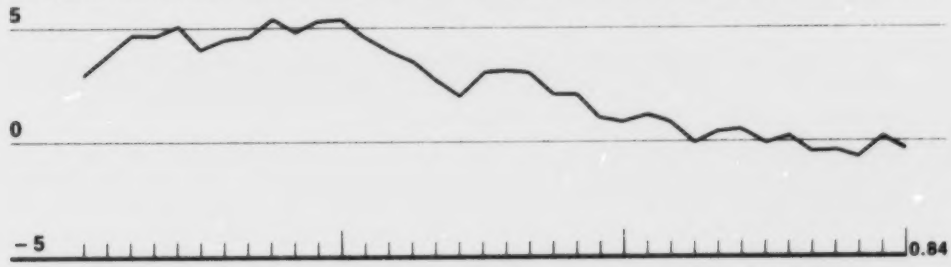
The Exchange Rate

Following on the heels of a period of stability throughout 1983, the value of the Canadian dollar fell by almost 6.0% between December 1983 and July 1984, going from 80.2 to 75.5 cents U.S. Then it levelled off at 76 cents U.S.

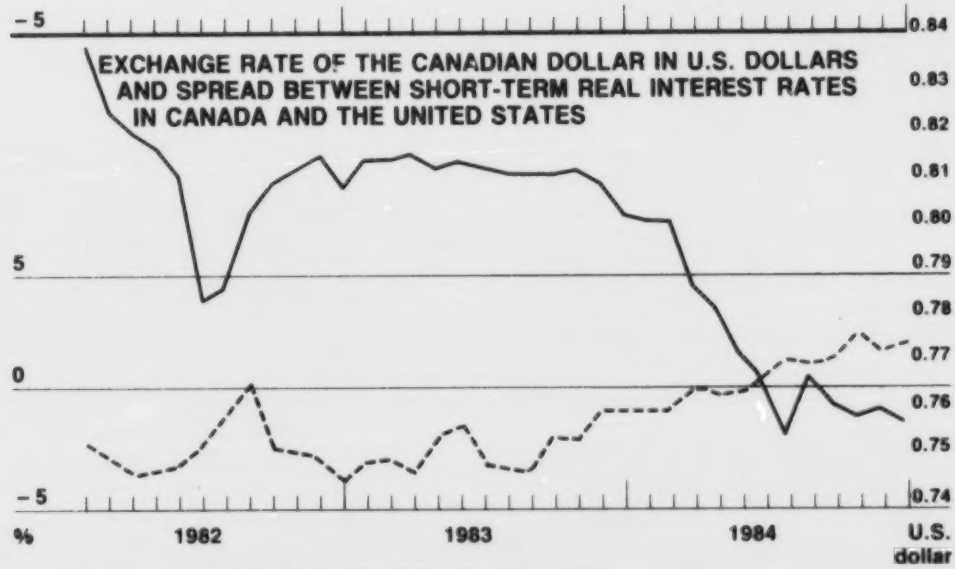
SPREAD BETWEEN SHORT-TERM INTEREST RATES IN CANADA AND THE UNITED STATES[1]



SPREAD BETWEEN INFLATION RATES IN CANADA AND THE UNITED STATES[2]



EXCHANGE RATE OF THE CANADIAN DOLLAR IN U.S. DOLLARS AND SPREAD BETWEEN SHORT-TERM REAL INTEREST RATES IN CANADA AND THE UNITED STATES



—— **Exchange rate of the Canadian dollar in U.S. dollars.**
– – **Spread between short-term real interest rates in Canada and the United States.**

1 90-day prime corporate paper rate (Canada) and 90-day commercial rate (United States).

2 Percentage increase of the CPI for the past twelve months.

Sources: Bank of Canada.
Ministère des Finances du Québec.

Several factors, however, were favourable to the Canadian dollar during the year, especially Canadian inflation which moved toward the U.S. rate, the trade balance which reached record levels, and spreads in "real" interest rates which were on the rise. However, these elements were not sufficient to offset the effect of the vigour of the U.S. economy on the demand for U.S. dollars on international exchange markets. The Bank of Canada reacted by increasing the spreads between Canadian and U.S. interest rates and by injecting $1.4 billion in international reserves. These efforts, along with a slowdown in growth in the United States, helped level off the Canadian dollar during the second half.

It should be noted that, even if the value of the Canadian dollar fell as compared with the U.S. dollar, its value rose in relation to the currencies of its other trading partners. Therefore, the effective value of the Canadian dollar actually depreciated by only 3.5%.

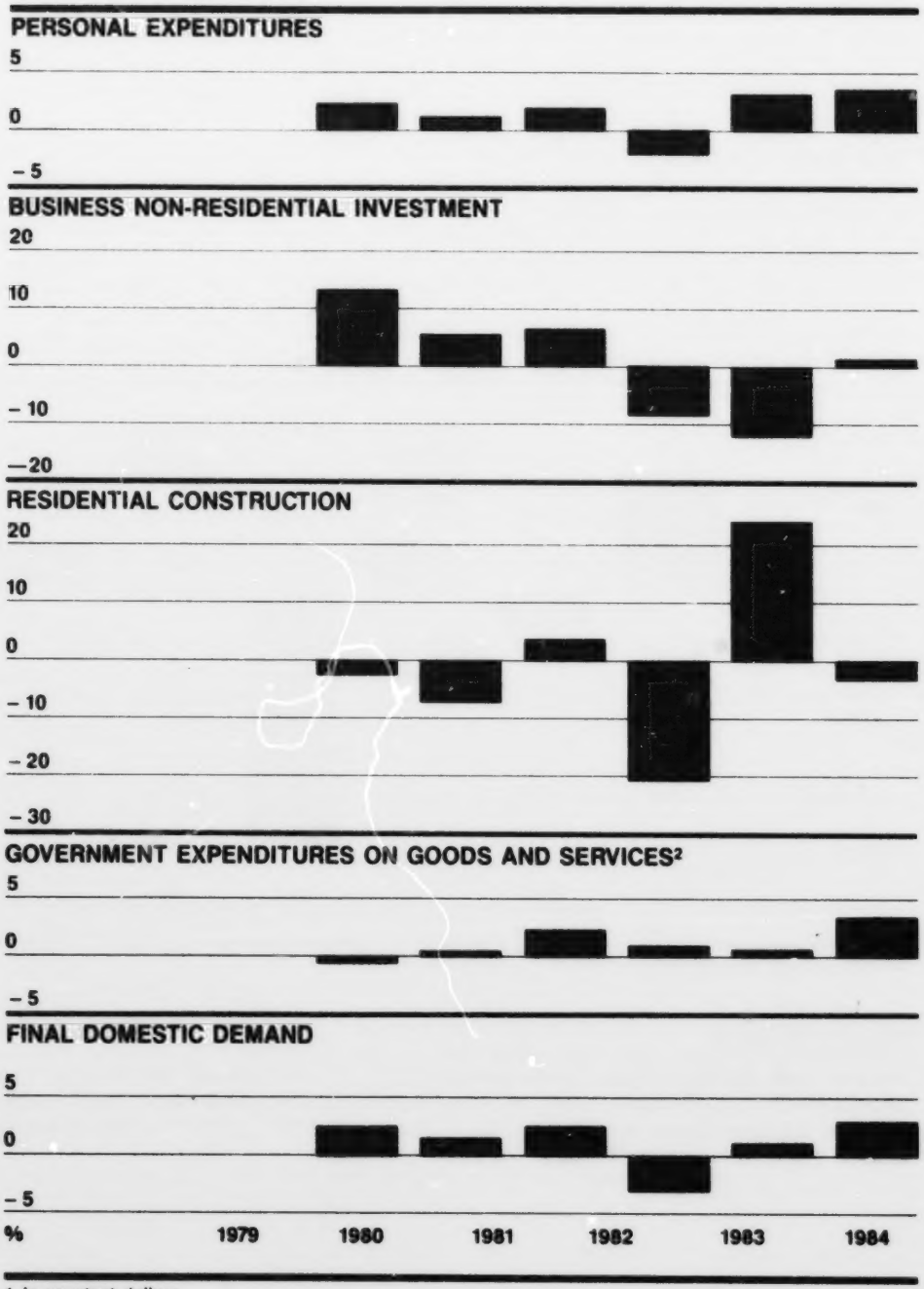
Domestic Demand

Every component of domestic demand, except residential construction, improved last year. Consumer spending, in constant dollars, increased by 3.4%, a pace slightly higher than that of real disposable income. The most dynamic category of expenditures was that of purchases of durables, where an 11.0% increase was recorded.

As regards the government sector, current expenditure on goods and services rose in volume by 2.8%, and that on capital by 6.9%, primarily because of expenditure trends of the federal government. Expenditures of other levels of administration rose very little, reflecting the application of government budgetary restraint policies.

With regard to investment, the high interest rates had a particularly marked negative impact on residential construction, which fell by 3.8% last year, while there were 134 900 housing starts, compared to 162 645 in 1983. Investment in non-residential construction and machinery and equipment grew slightly in 1984, after having dropped during the two previous years. In addition to the interest rates and the low capacity utilization rates, this trend is indicative of the appreciable decrease in activity linked to megaprojects in the energy sector.

DOMESTIC DEMAND [1] — CANADA
(annual percentage change)



1 In constant dollars.

2 Including capital expenditures.

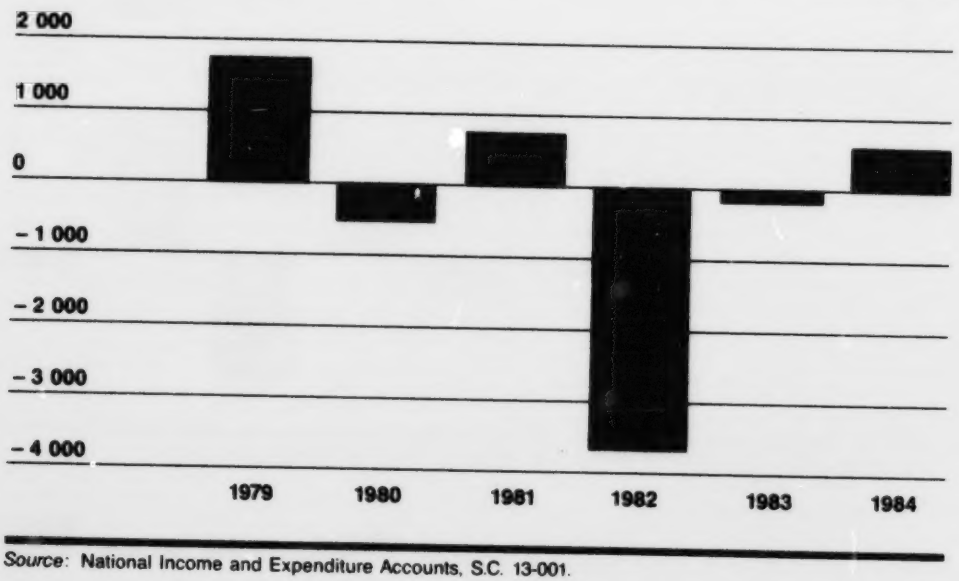
Source: National Income and Expenditure Accounts, S.C. 13-001.

Change in Inventories

For the first time since 1981, business firms increased the volume of their inventories in 1984. Accumulation of inventories reached $630 000 000 in 1984, compared with a total liquidation of $3 872 000 000 during the previous two years. The change in inventories was responsible for close to 1% of Canadian growth last year.

Despite this turnaround, the various inventory-sales ratios remained at an all-time low. The persistently low inventories over the last two years partly reflect more effective management of business inventories. In addition, the high real interest rates and the limited possibility of turning a profit on inventories in deflationary times help accentuate, in the short term, the decline in the inventory-sales ratio.

PHYSICAL CHANGE IN INVENTORIES — CANADA
(in millions of constant dollars)

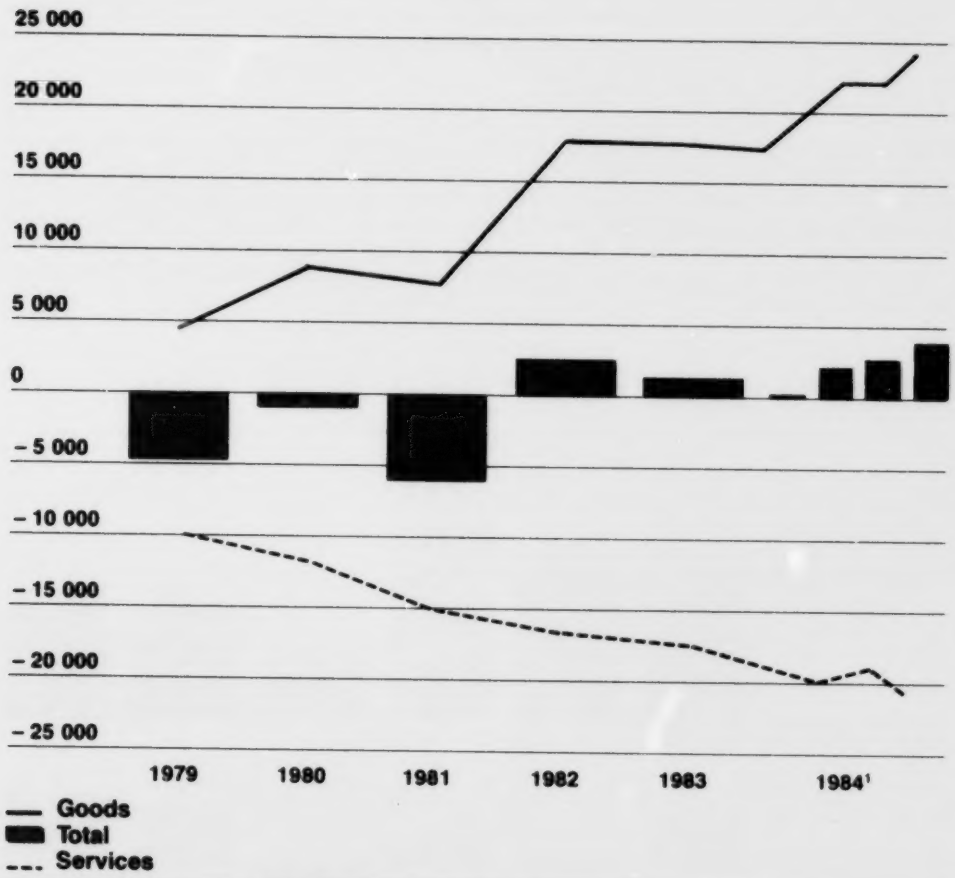


Source: National Income and Expenditure Accounts, S.C. 13-001.

External Demand

For the third consecutive year, there was a surplus in the current account balance. This development is in marked contrast to the previous deficit position of this item of the Canadian balance of payments. In 1984, the surplus was close to $1 950 000 000, which is higher than in 1983, when it was $1 686 000 000.

CURRENT ACCOUNT BALANCE — CANADA
(in millions of dollars)



1 The 1984 data are shown by quarter, seasonally adjusted and at annual rate.

Source: Quarterly estimates of the Canadian balance of international payments, S.C. 67-001.

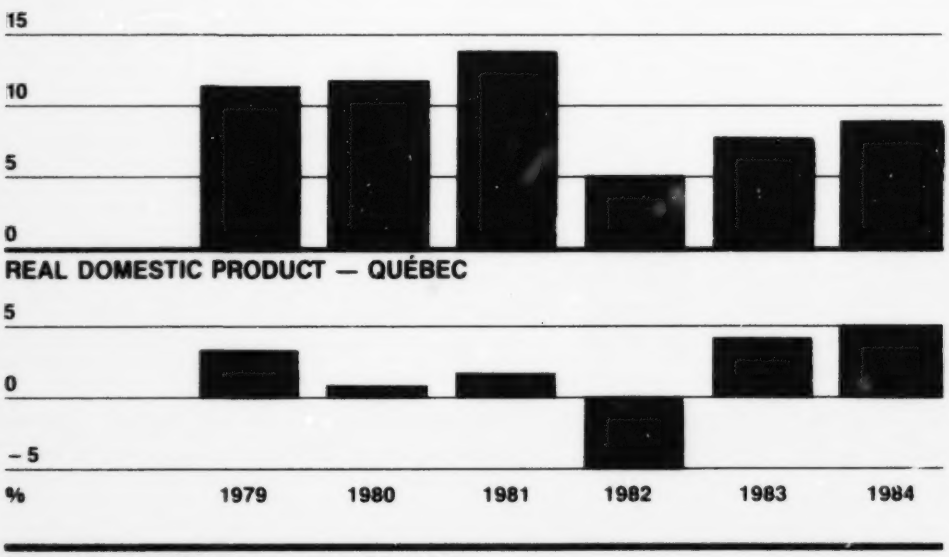
The improvement in the current account is primarily the result of an increase of more than $3 000 000 000 in the surplus in merchandise trade, which rose from $17 705 000 000 to $20 830 000 000. Exports grew by 22.2% in real terms, reflecting in particular a 28.0% rise in Canadian shipments to the United States. All the main goods exported by Canada experienced sustained growth, but the best performance was by automobiles and parts which soared by 37.0%. Merchandise imports rose by 19.1% in real terms, primarily because of a surge in automobile and machinery imports.

The deficit on services increased in 1984 to partly cancel out the increase in the surplus of merchandise trade. Last year it reached $19 671 000 000, as compared with $16 798 000 000 in 1983. This deterioration is especially attributable to a $2 300 000 000 increase in the deficit of the interest and dividend account.

3. THE QUÉBEC SITUATION

The main economic indicators show that Québec's economic growth in 1984 surpassed that of Canada as a whole for the second consecutive year. It is estimated that the real gross domestic product went up by 5.0% in Québec last year. All industries shared this rise, but it was most pronounced in the public utilities, manufacturing, trade, construction and mining sectors. The latter sector recorded its first production increase since 1979. Considering inflation, it is estimated that the value of the gross domestic product increased by 8.4% to reach over $98 000 000 000.

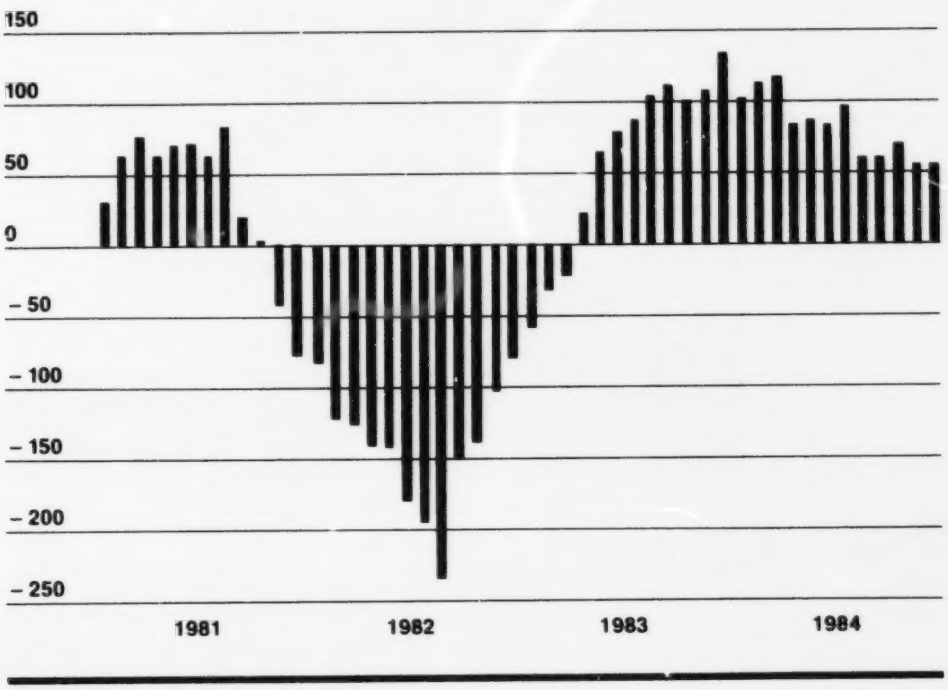
GROSS DOMESTIC PRODUCT — QUÉBEC
(annual percentage change)



Sources: Provincial Economic Accounts, S.C. 13-213.
Conference Board of Canada.
Ministère des Finances du Québec.

The continued recovery in production was accompanied by an increase of 80 000 (3.0%) jobs, on an annual basis, in 1984, compared with 266 000 (2.5%) for the whole of Canada. However, the rate of job creation dropped throughout the year to stand at 53 000 in December 1984 in comparison with the same month the previous year.

JOB CREATION — QUÉBEC
(in thousands)



Source: Labour Force Survey, S.C. 71-001.

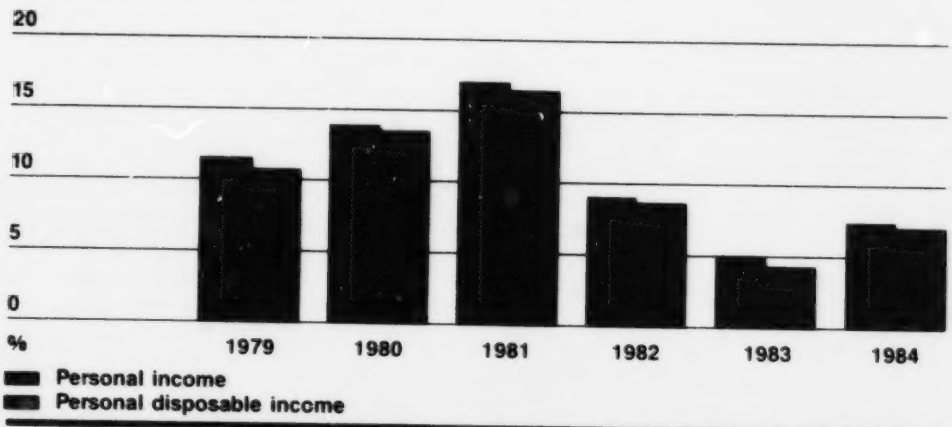
Given the 1.8% increase in the labour force, this rise in employment resulted in a reduction in the unemployment rate which declined from 13.9% in 1983 to 12.8% last year. In December 1984, the rate was down to 11.9% as opposed to 13.4% the year before.

Consumer Income and Spending

Personal income rose by about 7.0% in 1984 compared with 5.0% in 1983. This development is attributable to increased investment income and a more sustained rise in labour income; the latter is primarily the result of increases in wages and salaries in the public sector, which had dropped slightly in 1983 following the government's policy of salary rollbacks. Contrary to what occurred in 1982 and 1983, the increase in transfer income was less than that in personal income, mainly because unemployment insurance payments were down slightly as a result of the improved employment situation.

Personal income tax and contributions to the various social insurance programs increased at more or less the same rate as personal income. Consequently, disposable income also rose by 7.0%. Taking inflation into account, personal disposable income went up by close to 3.5%.

HOUSEHOLD INCOME — QUÉBEC
(annual percentage change)



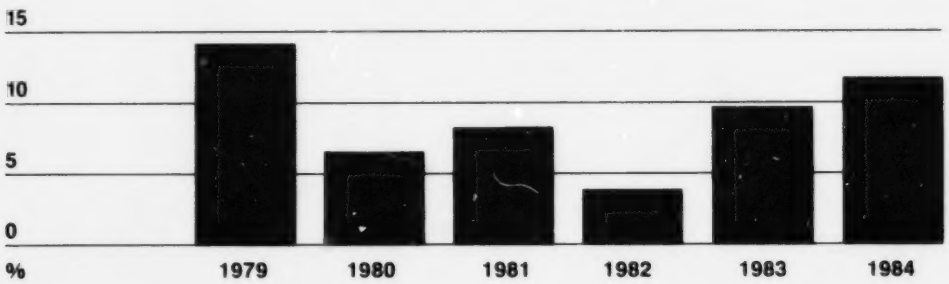
Sources: Provincial Economic Accounts, S.C. 13-213.
Ministère des Finances du Québec.

The slowdown in inflation, the increase in disposable income and the improved financial situation of households over the past few years made a sustained upward movement in personal spending possible in 1984, despite high "real" interest rates. In addition, an improved labour market helped maintain consumer confidence. For the second consecutive year, therefore, households reduced their rate of savings.

Retail sales in Québec rose by 11 4% in 1984, while in 1983 this figure was 9.7%. In Canada as a whole sales went up by 8.2%. Considering the change in prices, the rise in the volume of sales in Québec was the highest of the past decade. Growth was, however, uneven during the year, being more rapid during the first half and then dropping sharply.

Restoration of the stock of cars, undertaken as we began to pull out of the recession, continued in 1984. The increased rate of sales by car dealers was much the same as in 1983, 28.0%. Sales of furniture and household appliances were second with a growth rate of over 16.0%, while in 1983 this rate was 32.0%. Food, clothing and shoe stores recorded increases of about 6.0% while the rate for all other retail businesses was over 9.0%.

RETAIL SALES — QUÉBEC
(annual percentage change)

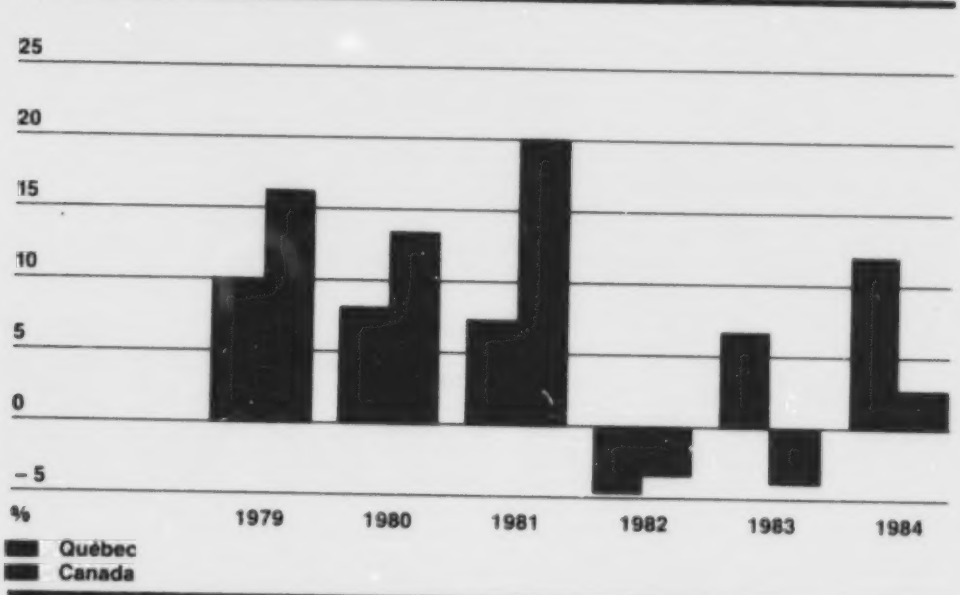


Source: Retail Trade, S.C. 63-005.

Private and Public Investment

Private and public investment was up 11.6% in Québec in 1984, reaching $15 563 200 000. In Canada, capital expenditures rose more moderately, by 2.1%. In Québec, the growth of capital expenditures benefited strongly from an 11.5% increase in non-residential investment, compared with a 3.5% increase for Canada.

TOTAL CAPITAL EXPENDITURES — QUÉBEC
(annual percentage change)



Source: Private and Public Investment in Canada, S.C. 61-205, 61-206.

Non-residential Investment

The 19.2% increase in purchases of machinery and equipment was particularly indicative of the growth of non-residential investment. This situation was just as evident in the primary and secondary sectors as in the service sector. Non-residential construction rose by 3.8%.

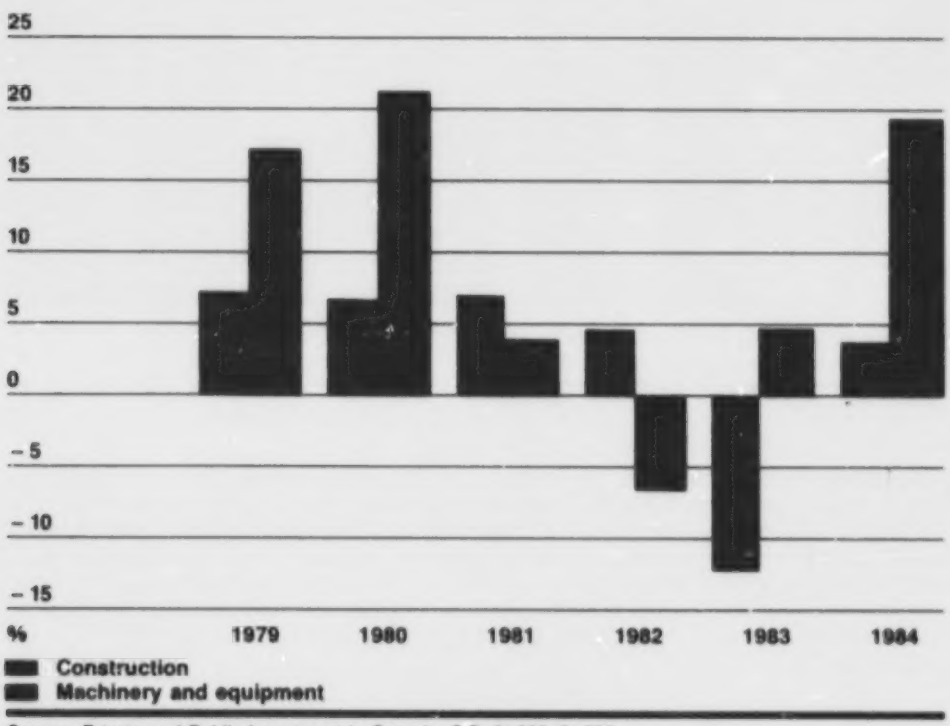
In 1984, the growth of investment in Québec was attributable to the vitality of the private non-residential sector, which increased its expenditures by 22.1%.

With a 14.9% rise in investment in mining, and 5.6% in forestry, the primary sector experienced an overall increase of 9.6% in 1984.

Capital expenditures in the manufacturing sector grew by 36.9% in 1984. The driving force behind overall investment in Québec, the growth of manufacturing, although widespread, was particularly evident in the following sectors: food (30.2%), paper (15.0%), primary metals (174.5%), transportation equipment (23.9%), and chemical products (56.9%). Only the petroleum by-products sector does not seem to be able to overcome its difficulties of recent years.

The trade, finance and commercial services sectors saw their total capital expenditures rise by 21.8% in 1984. The main source of this growth came however from an increase in purchases of machinery and equipment in trade (15.4%) and commercial services (40.5%). This trend is part of a more general tendency for all services to become increasingly automated. Construction in this particular sector recorded a growth rate of 10.5%.

NON-RESIDENTIAL CAPITAL EXPENDITURES — QUÉBEC
(annual percentage change)

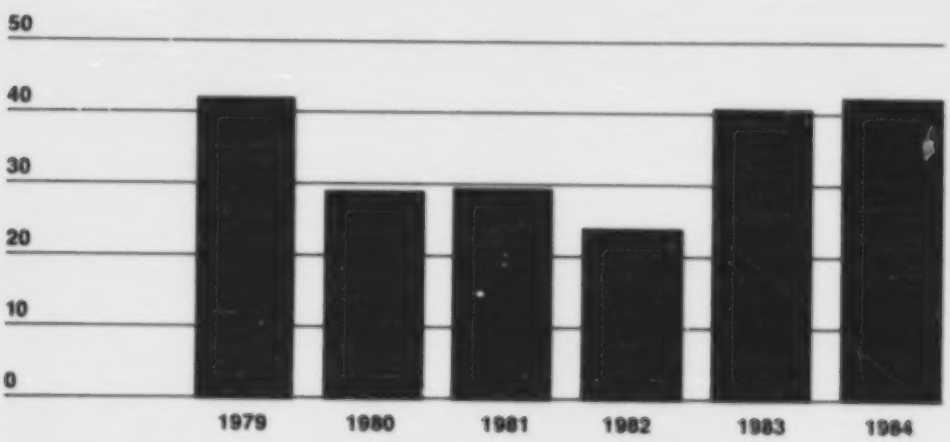


Source: Private and Public Investment in Canada, S.C. 61-205, 61-206.

Housing Construction

In 1984, Québec was the only province in Canada to experience an increase in new housing construction. The number of housing starts rose from 40 318 in 1983 to 41 902 last year, which represents a growth rate of 3.9%. In the rest of the country, housing starts dropped by 24.0%, so that Québec represented 31.0% of new housing construction in Canada, the highest percentage since 1963. Thanks to the interest subsidy offered under Corvée-Habitation until December 31, 1984 (3% to 4% on average), the majority of the Québec buyers did not suffer as much as their counterparts in the rest of Canada from the rise in mortgage interest rates and the abolition of the Canadian Homeownership Stimulation Plan. The difference between the performances of the Québec and Canadian markets for new housing clearly illustrates the negative effect that high interest rates can have on this sector.

HOUSING STARTS — QUÉBEC
(thousands of units)



Source: Canada Mortgage and Housing Corporation.

The excellent performance of the Québec new housing sector in 1984 resulted in the construction of a high percentage of units for the owner-occupied home market. In all urban centres of 10 000 inhabitants or more, fewer than 30.0% of housing starts were made for the rental sector, so that the rate of ownership again went up in Québec. On the other hand, the low construction of rental units resulted in an additional reduction in vacancy rates, particularly in Québec City and Montréal. Between October 1983 and October of the following year, the vacancy rate dropped from 3.2% to 2.5% in Montréal, and from 5.2% to 1.9% in Québec City.

External Demand

International exports loaded in Québec benefited from the rapid upswing in the economy of the United States last year. Increased Québec exports affected both primary and manufactured products. In value, exports rose by 15.6% in 1984 as compared to 4.3% in 1983. Considering the low rise in prices, the increase in the volume of merchandise exports delivered by Québec outside Canada is estimated at more than 14.0%.

CANADIAN INTERNATIONAL EXPORTS LOADED IN QUÉBEC

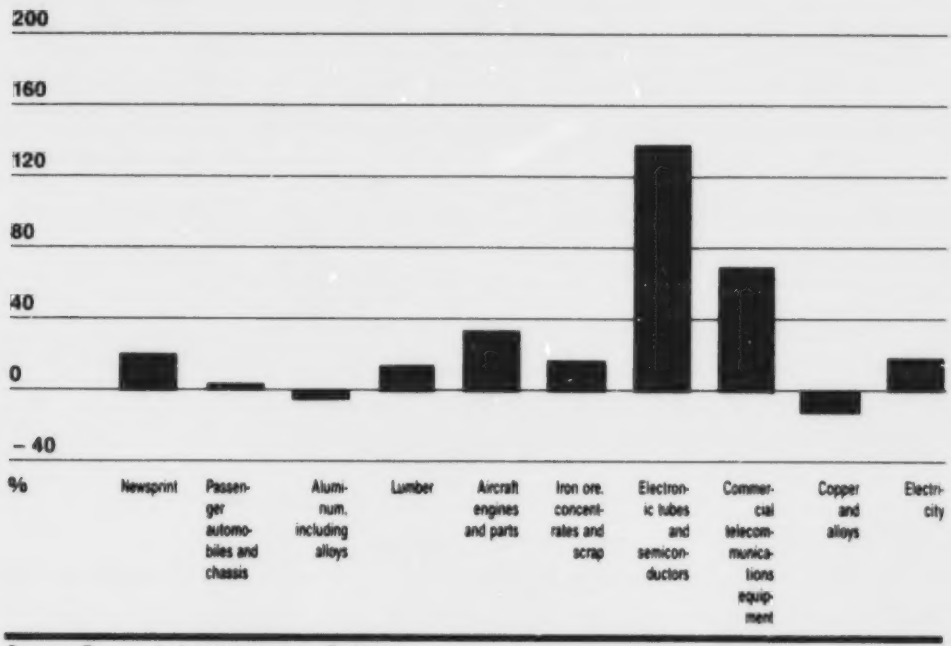
	Level in 1981	1981	1982	1983	1984
	(millions of dollars)	(percentage change)			
Primary products	1 841.6	0.7	- 19.2	- 6.3	12.0
Manufactured goods	12 975.2	7.4	- 3.2	5.3	15.7
— Consumer goods	2 914.4	7.1	- 6.8	20.0	11.3
— Machinery and equipment	2 616.8	12.6	5.7	- 3.3	10.6
— Construction materials and components	978.7	17.4	3.4	4.2	20.2
— Intermediary products and supplies	6 465.2	4.2	- 6.1	1.2	19.5
Including: Pulp and paper	2 742.7	17.1	- 4.5	- 4.5	22.7
Metal products	2 281.1	- 18.5	- 13.2	22.5	1.0
Electricity	191.8	24.3	54.2	12.6	18.0
Total exports	**15 065.0**	**6.9**	**- 4.5**	**4.3**	**15.6**

Source Bureau de la statistique du Québec

After having dropped by 6.3% in 1983, the value of shipments outside Canada of primary products rose by 12.0% in 1984. Exports of iron (15.3%) and zinc (100.0%) recorded the highest growth among the main metals and minerals exported by Québec. Exports of manufactured goods increased by 15.7%, which is indeed considerable when compared with the 5.3% increase obtained in 1983.

This good performance was shared by most categories of manufactured goods. Among these, exports of pulp and paper, aircraft engines, electronic tubes and semiconductors and telecommunications equipment had the best showing. On the other hand, exports of machinery and equipment rose very little.

CANADIAN EXPORTS LOADED IN QUÉBEC IN 1984
(annual percentage change)



Source: Bureau de la statistique du Québec.

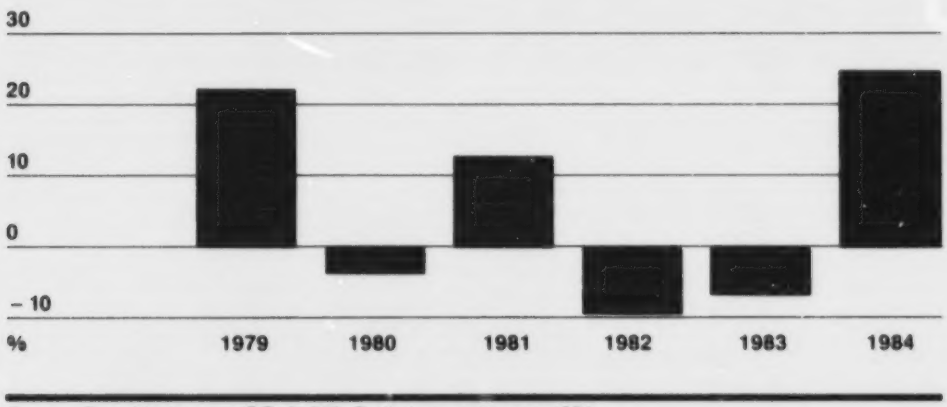
The Primary Sector

Agriculture

Farm revenue increased by 11.6% in 1984. The increased receipts were evident for both livestock products and crops, where a 10.7% rise was recorded. Particularly favourable weather conditions made for better harvests. In addition, a sizable reduction of supplies from the United States pushed up the price of grain in Québec. The 12.1% upswing in receipts from dairy products represented the major thrust of the growth, since revenue from this sector accounted for one-third of overall farm receipts. Revenue from the sale of pork rose by 6.0%, while that from the sale of beef decreased by 3.8%.

The strong increase in farm receipts contributed to a 24.0% increase in farm net income. This growth was possible because the expenditures of farm producers grew at a slower pace than receipts, and because inventories rose. In addition, $148 million in benefits under the stabilization insurance and crop insurance plans also helped increase the Québec farm net income.

FARM NET INCOME FROM FARM OPERATIONS — QUÉBEC
(annual percentage change)



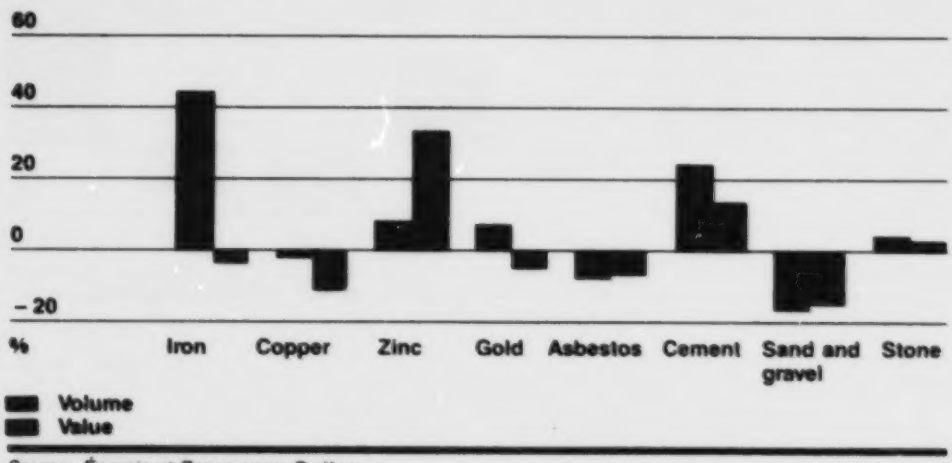
Source: Farm Net Income, S.C. 21-202, Preliminary estimates, 1984.

Mining

Despite the world economic recovery in 1983 and 1984, Québec's mining sector remains, overall, extremely vulnerable to international competition, to the marked fluctuations in metal prices, and to the downward trend in the use of certain products like zinc and asbestos.

Nevertheless, for the first time since 1979, mining production increased in 1984. There are three sectors responsible for this growth: iron, with increased shipments of 43.9%, zinc (8.0%) and gold (7.0%). The most important of the other products, like asbestos and copper, fell by 6.7% and 2.0% respectively. Therefore, not all sectors of the mining industry benefited in the same way from the world economic recovery.

VOLUME AND VALUE OF SHIPMENTS OF VARIOUS MINING PRODUCTS IN 1984 — QUÉBEC
(annual percentage change)

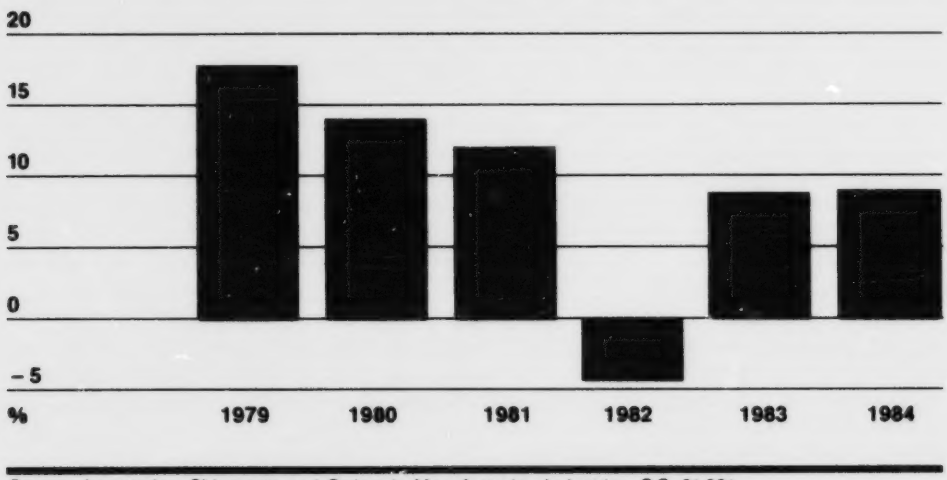


Source: Énergie et Ressources, Québec.

Manufacturing

Strong U.S. demand, increases in the Québec and Canadian demand and accumulation of inventories contributed to the growth of manufacturing production in Québec in 1984. According to a Conference Board of Canada estimate, production in this sector increased by about 6.0%. Over the past two years, recovery in this field has accounted for more than one-third of the rise in Québec production. However, despite these substantial gains, recovery of jobs lost during the recession has still not been completed, since the growth in output was achieved first by an increase in the number of hours worked and in productivity. Nevertheless, in 1984, employment in the sector went up by 27 000.

VALUE OF MANUFACTURERS' SHIPMENTS — QUÉBEC
(annual percentage change)



Source: Inventories, Shipments and Orders in Manufacturing Industries, S.C. 31-001.

The value of manufacturers' shipments increased more slowly in Québec than in Canada as a whole in 1984, by 9.0% as opposed to 13.2%. All sectors, except petroleum and coal, participated in this growth. The most marked increases were experienced by the non-metallic mineral products, manufacturing of metallic products, primary processing of metals, rubber, leather and electric products sectors.

The Labour Market

Just like production, job creation was relatively stronger, on an annual basis, in Québec (3.0%) than in the country as a whole (2.5%). After peaking in March with an increase of 116 000 over the same month of the previous year, job creation then fell off gradually during the year to reach 53 000 in December, for an average annual increase of 80 000 jobs in 1984.

On a sectoral basis, job creation was mainly concentrated in three sectors: community services (30 000), manufacturing (27 000) and trade (23 000). Employment in the construction sector also rose rapidly (5.2%), by 6 000. On the other hand, the transportation sector lost 10 000 jobs, which represents a 4.7% drop.

EMPLOYMENT BY SECTOR
(in thousands)

	Québec				Canada			
	1983	1984	Change		1983	1984	Change	
		(thousands)		%		(thousands)		%
Primary	128	128	0	0.0	757	768	11	1.5
Construction	116	122	6	5.2	566	572	6	1.1
Manufacturing	533	560	27	5.1	1 886	1 968	82	4.3
Transportation, communications and other public utilities	212	202	- 10	- 4.7	870	858	- 12	- 1.4
Trade	457	480	23	5.0	1 850	1 929	79	4.3
Finance, insurance and real estate	143	146	3	2.1	602	631	29	4.8
Community, business and personal services	858	888	30	3.5	3 421	3 483	62	1.8
Public administration	197	196	- 1	- 0.5	782	791	9	1.2
Total[1]	**2 642**	**2 722**	**80**	**3.0**	**10 734**	**11 000**	**266**	**2.5**

1 Slight differences in totals may exist because data were rounded off.

Source: Labour Force Survey, S.C. 71-001.

The improved employment situation resulted in an increased labour force participation rate, which grew from 60.9% to 61.5%. This development, combined with an increase of 35 000 in the working age population, explains the 1.8% (54 000) rise in the labour force. The more marked increase in employment than in the labour force thus made it possible to decrease the number of unemployed from 427 000 to 400 000, and the rate of unemployment therefore dropped from 13.9% to 12.8% between 1983 and 1984.

EMPLOYMENT AND UNEMPLOYMENT — QUÉBEC

	Employment			Unemployment rate		
	1983	1984	Change	1983	1984	Difference
	(in thousands)			%	%	(percentage points)
Bas-Saint-Laurent, Gaspésie	71	78	7	21.9	21.6	- 0.3
Saguenay, Lac-St-Jean	89	92	3	17.1	16.2	- 0.9
Québec	403	424	21	12.0	10.9	- 1.1
Trois-Rivières	167	168	1	16.0	14.9	- 1.1
Cantons-de-l'Est	96	94	- 2	15.0	12.7	- 2.3
Montréal	1 567	1 619	52	13.4	12.1	- 1.3
Outaouais	115	111	- 4	12.1	14.0	1.9
Nord-ouest québécois	55	55	0	21.5	18.9	- 2.6
Côte-Nord — Nouveau-Québec	38	39	1	14.7	17.7	3.0
Unassigned	41	42	1	—	—	—
Total[1]	**2 642**	**2 722**	**80**	**13.9**	**12.8**	**- 1.1**

1 Slight differences in totals may exist because data were rounded off.

Source: Labour Force Surveys, S.C. 71-001.

The unemployment rate fell in most regions of Québec. Only the Côte-Nord — Nouveau-Québec and Outaouais regions experienced increases in this rate. Job creation was unevenly distributed, however. Four regions benefited from almost all the new jobs, recording increases as follows: Bas-Saint-Laurent, Gaspésie (9.9%), Québec (5.2%), Saguenay, Lac-Saint-Jean (3.4%) and Montréal (3.3%). In fact, the Montréal and Québec regions obtained more than 90.0% of the new jobs last year. The Cantons-de-l'Est and Outaouais regions, on the other hand, lost 2.1% and 3.5% of jobs respectively.

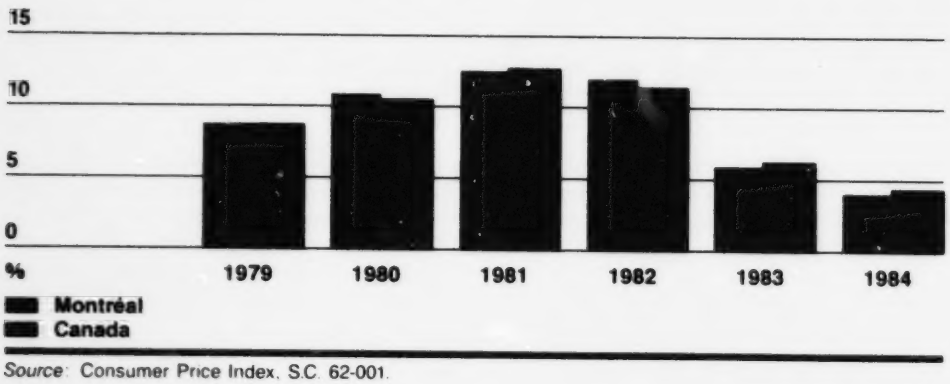
Prices and Wages

The growth rate in consumer prices reached 4.2% and 4.3% respectively in Montréal and Canada as a whole. Following a 12.5% peak in 1981, the inflation rate thus decreased for the third consecutive year in Canada. Therefore, last year's performance was the best since 1971.

The price of food increased rapidly in the first half of the year, because of frost that had partly disrupted fruit and vegetable supplies from the United States. Food prices then dropped, while Québec's major food retailers had to adjust their cost structure to the new standards imposed by the emergence of extra-large food stores.

The slowdown in the growth of labour and energy costs, combined with the low rise in prices in the United States, is one of the main factors in the reduction of the inflation rate. On the other hand, the 4.8% depreciation of the Canadian dollar, relative to the U.S. dollar, checked the lowering of inflation.

CONSUMER PRICE INDEX
(annual percentage change)

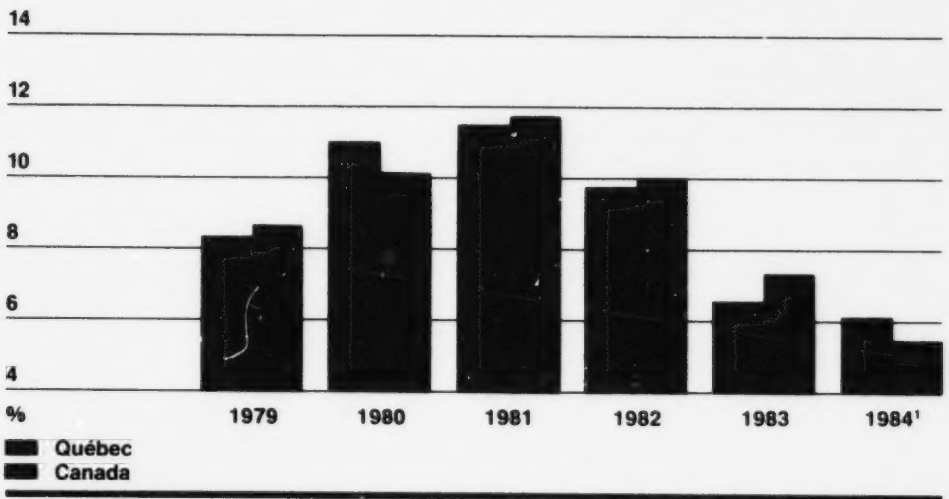


Source: Consumer Price Index, S.C. 62-001.

The rate of increase in average weekly wages for firms with 20 employees or more dropped from 6.6% to 6.1% between 1983 and 1984 in Québec, compared to 7.3% and 5.4% for Canada as a whole[1]. The reduction of wage increases negotiated under the collective agreements continued in 1984. The collective agreements signed in the major Canadian business firms during the first three quarters of 1984 set wage increases at 3.4%, as compared with increases of 4.7% in the collective agreements signed in 1983.

1 However, according to a new Statistics Canada survey which comprises, as of March 1983, all firms in the public and private sectors, the wage increase between March and December 1984, compared to the corresponding period in 1983, was 3.8% in Québec and 4.0% in Canada as a whole.

AVERAGE WEEKLY WAGE
(annual percentage change)



1 Growth rate calculated in November.

Source: Employment, Earnings and Hours, S.C. 72-002.

ECONOMIC INDICATORS
CANADA

	Unit of measurement	1980	1981	1982	1983	1984[1]	80-79	81-90	82-81	83-82	84-83	84-80[2]
							%	%	%	%	%	%
Gross national product	000 000 $	297 556	339 797	358 302	390 340	420 819	12.6	14.2	5.4	8.9	7.8	9.1
Real domestic product	000 000 $71	117 781	121 071	115 891	119 007	124 682	1.3	2.8	– 4.3	2.7	4.8	1.4
Per capita real domestic product	$71	4 899	4 974	4 705	4 782	4 962	0.0	1.5	– 5.4	1.6	3.8	0.3
Personal income	000 000 $	244 712	288 529	317 426	336 934	360 741	13.6	17.9	10.0	6.2	7.0	10.2
Per capita personal income	$	10 178	11 853	12 887	13 541	14 356	12.2	16.5	8.7	5.1	6.0	9.0
Total capital expenditures	000 000 $	66 193	79 604	76 761	73 519	75 070	13.4	20.3	– 3.6	– 4.2	2.1	3.2
— manufacturing sector	000 000 $	9 747	12 739	11 493	8 858	9 089	30.9	30.7	– 9.8	– 22.9	2.6	– 1.7
Value of shipments — manufacturing industries	000 000 $	168 364	190 685	183 432	199 560	225 817	10.4	13.3	– 3.8	8.8	13.2	7.6
Retail sales	000 000 $	84 026	94 293	97 638	106 243	114 917	9.1	12.2	3.5	8.8	8.2	8.1
Consumer Price Index	1981 = 100	88.9	100.0	110.8	117.2	122.3	10.2	12.5	10.8	5.8	4.3	8.3
Population (June 1)	'000	24 043	24 342	24 632	24 886	25 128	1.2	1.2	1.2	1.0	1.0	1.1
Labour Force	'000	11 573	11 904	11 958	12 183	12 399	3.0	2.9	0.5	1.9	1.8	1.7
Employment	'000	10 708	11 006	10 644	10 734	11 000	3.0	2.8	– 3.3	0.8	2.5	0.7
Unemployment	%	7.5	7.5	11.0	11.9	11.3						

1 Preliminary figures.
2 Compound annual rate.

Sources: National Income and Expenditure Accounts, S.C. 13-001, Gross Domestic Product by Industry, S.C. 61-005, Private and Public Investment in Canada, S.C. 61-005, Inventories, Shipments and Orders in Manufacturing Industries, S.C. 31-001, Retail Trade, S.C. 63-005, Consumer Prices and Price Indexes, S.C. 62-010, Estimates of Population for Canada and the Provinces, S.C. 91-201, Labour Force Survey, S.C. 71-001.

ECONOMIC INDICATORS
QUÉBEC

	Unit of measurement	1980	1981	1982	1983	1984[1]	80-79	81-80	82-81	83-82	84-83	84-80[2]
							%	%	%	%	%	%
Gross domestic product	000 000 $	70 312	80 015	84 009	90 432	98 054	11 6	13.8	5 0	7 6	8 4	8 7
Real domestic product	000 000 $71	27 048	27 367	25 966	27 007	28 362	0 7	1 2	- 5 1	4 0	5 0	1 2
Per capita real domestic product	$71	4 235	4 251	4 007	4 145	4 331	0 0	0 4	- 5 7	3 5	4 5	0 6
Personal income	000 000 $	61 213	71 383	77 761	81 641	87 443	13.9	16.6	8.9	5 0	7 1	9 3
Per capita personal income	$	9 585	11 087	12 001	12 531	13 352	13 1	15 7	8.2	4 4	6 5	8 6
Total capital expenditures — manufacturing sector	000 000 $	12 819	13 739	13 097	13 947	15 563	8 1	7 2	- 4 7	6 5	11 6	5 0
Value of shipments — manufacturing industries	000 000 $	2 190	2 272	2 160	2 088	2 858	51 2	3 8	- 5 0	- 3 3	36 9	6 9
Retail sales	000 000 $	44 906	50 244	48 144	52 419	57 112	14 1	11 9	- 4 2	8 9	9 0	6 2
Consumer Price Index	1981 = 100	20 895	22 671	23 497	25 784	28 713	6 5	8 5	3 6	9 7	11 4	8 3
Population (June 1)	'000	89.0	100.0	111 6	117 8	122 7	10.3	12 4	11 5	5 6	4 2	8 4
Labour force	'000	6 386	6 438	6 480	6 515	6 549	0 7	0 8	0 6	0 5	0 5	0 6
Employment	'000	2 988	3 040	2 998	3 069	3 123	3 1	1 7	- 1 4	2 4	1 8	1 1
Unemployment	%	2 694	2 726	2 584	2 642	2 722	2 9	1 2	- 5 2	2 2	3 0	0 3
		9.8	10 3	13.8	13 9	12 8						

1 Preliminary figures.
2 Compound annual rate

Sources: Provincial Economic Accounts, S.C. 13-213, Conference Board of Canada, National Income and Expenditure Accounts, S.C. 13-001, Private and Public Investment in Canada, S.C. 61-205, Inventories, Shipments and Orders in Manufacturing Industries, S.C. 31-001, Retail Trade, S.C. 63-005, Consumer Prices and Price Indexes, S.C. 62-010, Estimates of Population For Canada and the Provinces, S.C. 91-201, Labour Force Survey, S.C. 71-001

APPENDIX II

The Government's Financial Position and Borrowings in the Public Sector

THE GOVERNMENT'S FINANCIAL POSITION AND BORROWINGS IN THE PUBLIC SECTOR

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1. THE GOVERNMENT'S FINANCIAL TRANSACTIONS

Preliminary results of the government's financial transactions for the fiscal year ending March 31, 1985, show total net financial requirements of $2 006 100 000 as against $2 220 800 000 for 1983-1984. This is $93 900 000 lower than what was forecast in the Budget Speech of May 22, 1984, and is attributable to an improved surplus position in non-budgetary transactions.

The deficit in budgetary transactions, $3 175 000 000, remained at the level indicated in the Budget Speech. The $125 000 000 decrease in revenue in 1984-1985 was completely offset by an equivalent reduction in expenditure.

The surplus in non-budgetary transactions is $1 168 900 000, an increase of $93 900 000 relative to the initial forecast. This change is the result of an appreciable improvement in other non-budgetary accounts, together with a slight decrease in the surplus of the retirement plans account.

With respect to financing, given the combined effect of increased repayments of borrowings and the drop in net financial requirements since the Budget Speech of last May, the government's new borrowings of $3 280 800 000 improved its cash position to the extent of $210 700 000.

GOUVERNEMENT DU QUÉBEC
SUMMARY OF FINANCIAL TRANSACTIONS
(in millions of dollars)

	1983-1984	1984-1985		
		Budget Speech of 1984-05-22	Preliminary results[1]	Changes
1. Budgetary transactions				
Revenue	+ 21 410.9	+ 22 465.0	+ 22 340.0	- 125.0
Expenditure	- 24 523.5	- 25 640.0	- 25 515.0	+ 125.0
Deficit	- 3 112.6	- 3 175.0	- 3 175.0	—
2. Non-budgetary transactions				
Investments, loans and advances	- 150.5	- 170.0	- 172.3	- 2.3
Retirement plans account	+ 1 056.7	+ 1 205.0	+ 1 185.2	- 19.8
Other accounts	- 14.4	+ 40.0	+ 156.0	+ 116.0
Balance	+ 891.8	+ 1 075.0	+ 1 168.9	+ 93.9
3. Net financial requirements	- 2 220.8	- 2 100.0	- 2 006.1	+ 93.9
4. Financing				
Change in cash position	- 13.7	—	- 210.7	- 210.7
New borrowings	+ 2 797.0	+ 2 890.0	+ 3 280.8	+ 390.8
Less: Repayments of borrowings	- 562.5	- 790.0	- 1 064.0	- 274.0
Total	**+ 2 220.8**	**+ 2 100.0**	**+ 2 006.1**	**- 93.9**

N.B.: A (-) sign indicates a financial requirement and a (+) sign, a source of financing. For the change in cash position, a (-) sign indicates an increase and a (+) sign, a decrease.

1 The financial data for 1984-1985 shown in this table are determined on the basis of the results recorded for the period April 1984 to February 1985 and of an estimate as at April 4, 1985, of revenue and expenditure posted to the lapsed fiscal year during March and April 1985, according to the accounting practices in effect.

Budgetary Revenue

Preliminary results for the 1984-1985 fiscal year indicate budgetary revenue of $22 340 000 000, a rise of 4.3% compared to 11.5% the previous year. While own-source revenue increased by 5.8%, federal government transfers rose by 0.9%. The $125 000 000 drop in revenue compared with the Budget Speech forecast reflects a reduction in own-source revenue of $262 000 000 which was partially offset by a $137 000 000 increase in federal transfers.

SUMMARY OF THE EVOLUTION OF OWN-SOURCE REVENUE

	1983-1984	1984-1985			
		Budget Speech of 1984-05-22	Preliminary results	Changes compared to Budget	Changes compared to 1983-1984
		(In millions of dollars)			(%)
Personal income tax	6 763.7	7 501.0	7 166.0	- 335.0	5.9
Employers' contributions to the health services fund	1 440.8	1 534.0	1 489.0	- 45.0	3.3
Retail sales tax	2 277.4	2 497.0	2 588.0	91.0	13.6
Hydro-Québec	60.2	60.0	156.0	96.0	159.1
Other	4 532.3	4 617.0	4 548.0	- 69.0	0.3
Total own-source revenue	15 074.4	16 209.0	15 947.0	- 262.0	5.8

Although actual economic performance in 1984 confirmed the forecasts for real economic growth contained in the Budget Speech, the easing in inflationary pressures was greater than anticipated, particularly with respect to wages. In 1984, average wage increases for all industries did not keep pace with the rise in the consumer price index.

This change in the growth rate of wages is one of the chief reasons for the downward revision of $335 000 000 in the expected personal income tax yield. Moreover, as compared with what was anticipated for the 1983 taxation year, the level of refunds was higher and the level of income tax balances owing was lower, as a result of, among other factors, the significant increase in the number of participants in the stock savings plan.

The $45 000 000 drop in employers' contributions to the health services fund is mainly due to the lower than anticipated growth in wages and salaries, but also reflects an accounting correction resulting from the adjustment of data for previous years.

The yield of the retail sales tax increased by $91 000 000 as a result of the healthy growth in consumer spending, particularly in the automobile sector.

The better than anticipated performance in electricity sales, both in Québec and outside the province, is the main reason for the $96 000 000 rise in Hydro-Québec's dividend compared with what had been announced in the last Budget Speech.

The revisions in other own-source revenue are mainly due to a slowdown in inflation which was more pronounced than expected.

SUMMARY OF THE EVOLUTION OF TRANSFERS FROM THE GOVERNMENT OF CANADA

	1983-1984	1984-1985			
		Budget Speech of 1984-05-22	Prelimi-nary results	Changes compared to Budget	Changes compared to 1983-1984
		(in millions of dollars)			(%)
Equalization	3 227.4	3 102.0	3 102.0	—	- 3.9
Other transfers related to the fiscal arrangements	1 720.8	1 647.0	1 833.0	186.0	6.5
Contributions to welfare programs	1 043.7	1 179.0	1 148.0	- 31.0	10.0
Other programs	344.6	328.0	310.0	- 18.0	- 10.0
Total Government of Canada transfers	**6 336.5**	**6 256.0**	**6 393.0**	**137.0**	**0.9**

The increase in transfers from the federal government is essentially due to a significant rise in transfers under the financing of health and post-secondary education, which is offset to a limited degree by a slight reduction in the federal contributions to welfare programs, and in the transfers related to other shared-cost programs.

In regard to equalization payments, the revenue forecast of $3 102 000 000 proved to be accurate, since the final value of the provisional guarantee for the 1984-1985 fiscal year was determined in March 1984.

As for the $186 000 000 increase in other transfers related to the fiscal arrangements, $180 000 000 stem from a higher than expected federal contribution to the financing of health and post-secondary education programs, resulting, in particular, from a downward adjustment in the basic federal tax and thus in the value of the tax points used to determine this financial transfer. Of this increase $140 000 000 relates to the fiscal year 1984-1985, the rest stemming from the cashing in, as at March 31, 1985, of part of the corresponding adjustments relative to previous fiscal years. The reduction in the estimated basic federal tax for 1984 and 1985 is attributable, in particular, to lower than expected nominal growth in wages and salaries as a result of the slowdown in inflation.

The $31 000 000 drop in federal contributions to welfare programs is due mainly to a cutback in shared costs for welfare services and to a reduction in social aid costs.

Budgetary Expenditure

Preliminary results indicate budgetary expenditure of $25 515 000 000 for the 1984-1985 fiscal year, an increase of 4.0% compared to 10.2% the previous year. By adjusting the data to allow for an amount of $431 000 000 in expenditures charged in advance in 1983-1984 which would normally have been assumed during subsequent years, including $422 000 000 in 1984-1985, the annual growth rates on a comparable basis stand at 7.7% for 1984-1985 and 8.2% for 1983-1984.

SUMMARY OF THE EVOLUTION OF EXPENDITURE
(in millions of dollars)

	1984-1985		
	Budget Speech of 1984-05-22	**Preliminary results**	**Changes compared to Budget**
Initial estimates	25 640.0	25 640.0	—
Plus:			
— Supplementary estimates of June 20, 1984	28.0[1]	28.0	—
— Supplementary estimates of December 21, 1984		440.8	+ 440.8
— Special warrant of August 9, 1984		3.5	+ 3.5
— Overexpenditure not provided for in supplementary estimates		16.0	+ 16.0
Less:			
— Transfers of budget appropriations to investments, loans and advances		- 3.9	- 3.9
— Lapsed appropriations	- 28.0[1]	- 609.4	- 581.4
Total 1984-1985 expenditure	25 640.0	25 515.0	- 125.0
Total 1983-1984 expenditure		24 523.5	
Change in %		4.0	
Total expenditure adjusted to take account of expenditure charged in advance in 1983-1984			
— 1984-1985 (25 515.0 + 422.0)		25 937.0	
— 1983-1984 (24 523.5 - 431.0)		24 092.5	
— Change in %		7.7	

1 Additional expenditure announced and lapsed appropriations anticipated at the time of the Budget Speech.

The Budget Speech forecast expenditures of $25 640 000 000; the preliminary results show a drop of $125 000 000 relative to the initial estimates. This decrease is the result of lapsed appropriations which more than offset the additional expenditures stemming from the National Assembly's adoption, in June and December of last year, of supplementary estimates totalling $468 761 117, the government's issuing of a special warrant last August of $3 500 000 in financial assistance to the Corporation Québec 1534-1984, as well as over-expenditures of $16 000 000 not covered by the supplementary estimates, including $8 500 000 in subsidies paid to the Société immobilière du Québec for servicing its borrowings, and $3 900 000 relative to the administration of justice and the payment of compensation to victims of floods and criminal acts.

The supplementary estimates were approved not only to fund the additional expenditures of $28 000 000 announced in the Budget Speech for municipal roadworks, the development of parks and wildlife reserves, and the extension of the Logirente program to persons 60 and over, but also to cover budgetary overruns with respect to certain expenditure programs and to ensure the implementation of the new measures adopted during the year.

The supplementary estimates not announced in the Budget Speech were authorized mainly to provide for an anticipated overrun of $127 679 000 on the public debt service resulting from the rise in interest rates and the fall in the exchange rate of the Canadian dollar by comparison with initial assumptions, as well as for an increase of $86 232 300 in the budgetary package earmarked for the operating expenses of hospital, reception and rehabilitation centres, and for the regional and national coordination activities of the social affairs network. The other financial requirements then identified include amounts of $15 000 000 in financial assistance granted to Québec's petrochemical industry, $13 700 000 for the increase in the cost of interest and amortization of the arrears of the education and social affairs systems, $12 765 300 in subsidies for the operating costs and debt service of the Société du Palais des congrès de Montréal, the government's contribution of $10 474 700 to farm income stabilization insurance, $9 498 900 under the health assistance program, $8 802 000 for the operations of the Office des personnes handicapées, and $5 600 000 in financial assistance to students.

Unexpended budgetary appropriations totalled $613 300 000, of which $3 900 000 went in transfers of appropriations to investments, loans and advances. The major components of lapsed appropriations include, in particular, the reduction of expenditures chargeable to the current year for primary, secondary, college and university education, which were $20 200 000 below those forecast, and the public service salaries and other remuneration which totalled $92 400 000 less than initially forecast, reflecting especially the slowdown in the pace of inflation. A $53 100 000 drop was recorded in social aid payments of which $37 600 000 is due to the recovery of overpayments, the balance being the result of a smaller than predicted number of recipients. The cost of servicing the public debt came to $2 404 600 000, following recent developments in interest rates and in the borrowing program, so that $33 100 000 of the supplementary estimates which had been approved for this purpose lapsed.

Furthermore, appropriations of $50 700 000 in financial assistance to businesses lapsed as a result of a drop in applications received under the various programs administered by the Société de développement industriel du Québec and the ministère de l'Industrie et du Commerce. At the same time, transfers to municipalities in the form of compensation in lieu of taxes on government buildings and buildings of the education and social affairs networks were $30 000 000 less than anticipated. Interest assumed by the government under the farm financial assistance programs was $18 000 000 less than forecast, despite increases in interest rates beyond what had been predicted, as fewer loan applications than anticipated were received.

Finally, the level of regular lapsed appropriations generated by various departmental activities explains the lapsed appropriations balance of $311 900 000, less than 1.2% of the total authorized appropriations.

Under the budgetary policy adopted by the government, the preliminary results also incorporate an amount of $1 420 900 000 charged to expenditures in 1984-1985 as the government's employer contribution for current and past services under the retirement plans. The following table shows the effects of the retirement plans account on the government's financial transactions, since its creation in 1978-1979.

SUMMARY OF FINANCIAL TRANSACTIONS RELATING TO THE RETIREMENT PLANS (in millions of dollars)

	1978-1979	1979-1980	1980-1981	1981-1982	1982-1983	1983-1984	Preliminary results 1984-1985
1. Budgetary transactions							
Revenue	—	—	—	—	—	—	—
Expenditure — current service	– 277.2	– 473.0	– 558.1	– 613.4	– 540.8	– 474.2	– 486.1
— past service	—	– 172.0	– 172.7	– 224.3	– 246.5	– 278.4	– 337.0
— interest	– 54.0	– 87.6	– 164.6	– 263.4	– 379.5	– 480.3	– 597.8
	– 331.2	– 732.6	– 895.4	– 1 101.1	– 1 166.8	– 1 232.9	– 1 420.9
Deficit	– 331.2	– 732.6	– 895.4	– 1 101.1	– 1 166.8	– 1 232.9	– 1 420.9
2. Non-budgetary transactions							
Retirement plans account							
Government contributions	+ 331.2	+ 732.6	+ 895.4	+ 1 101.1	+ 1 166.8	+ 1 232.9	+ 1 420.9
Contributions from independent employers	+ 24.8	+ 24.6	+ 26.0	+ 26.8	+ 25.7	+ 22.6	+ 21.9
Employee contributions[1]	+ 125.3	+ 123.9	+ 125.3	+ 143.6	+ 168.0	+ 160.4	+ 153.2
Total contributions	+ 481.3	+ 881.1	+ 1 046.7	+ 1 271.5	+ 1 360.5	+ 1 415.9	+ 1 596.0
Total benefits[2] and other payments	– 165.6	– 198.3	– 224.4	– 264.2	– 309.3	– 359.2	– 410.8
Surplus	+ 315.7	+ 682.8	+ 822.3	+ 1 007.3	+ 1 051.2	+ 1 056.7	+ 1 185.2
3. Net financial requirements	– 15.5	– 49.8	– 73.1	– 93.8	– 115.6	– 176.2	– 235.7

N.B. A (–) sign indicates a financial requirement and a (+) sign, a source of financing.

1 Contributions to retirement plans other than RREGOP. Employee contributions to RREGOP are paid directly to the Caisse de dépôt et placement du Québec without passing through the retirement plans non-budgetary account.

2 Includes the portion of the benefits paid out under RREGOP by the government, and all the benefits paid out under the other plans.

Non-Budgetary Transactions

The preliminary figures show that the surplus of non-budgetary transactions reached $1 168 900 000, compared with the forecast of $1 075 000 000 in last May's Budget Speech.

SUMMARY OF NON-BUDGETARY TRANSACTIONS, 1984-1985
(in millions of dollars)

	Budget Speech of 1984-05-22	Preliminary results	Changes
1. Investments, loans and advances			
Enterprises of the gouvernement du Québec			
Share capital and invested capital	– 130.8	– 155.3	– 24.5
Loans and advances	– 20.0	– 1.4	+ 18.6
Subtotal	– 150.8	– 156.7	– 5.9
Loans and advances to municipalities, municipal agencies, individuals, corporations and other	– 19.2	– 15.6	+ 3.6
Total investments, loans and advances	– 170.0	– 172.3	– 2.3
2. Retirement plans account	+ 1 205.0	+ 1 185.2	– 19.8
3. Other accounts	+ 40.0	+ 156.0	+ 116.0
4. Balance	+ 1 075.0	+ 1 168.9	+ 93.9

N.B.: A (-) sign indicates a financial requirement and a (+) sign, a source of financing.

With respect to investments, loans and advances, the $172 300 000 corresponds, for all practical purposes, to the amount forecast in the Budget Speech; however, some significant reallocations have been effected within the overall package. Investments in the form of share capital and other capital invested in government enterprises rose by $24 500 000, even after allowing for the allocation of the $19 600 000 provision included in the Budget Speech for this purpose, primarily because of a $25 000 000 rise in the government's investment in the Société nationale de l'amiante, brought about by the particularly difficult financial situation faced by the Société's mining subsidiaries. An additional $11 400 000 of the capital stock of S.G.F. was purchased in order to fund the acquisition of shares of Donohue as well as its investment in the Bécancour aluminum smelter project, where construction is moving ahead faster than expected. Finally, the addition to the capital stock of SOQUIP, set at $30 000 000 in the Budget Speech, was raised to $40 000 000 to finance the acquisition of natural gas reserves and stock of companies involved in natural gas distribution.

Furthermore, an additional $23 200 000 was advanced to Sidbec to enable it to achieve its capital investment program for the current year and meet its share of the expenses incurred through the shutdown of the Sidbec-Normines installations at Ville de Gagnon. However, these additional disbursements were more than offset by unexpected reimbursements of $13 400 000 from the S.H.Q., of $4 200 000 from the Société du parc industriel du centre du Québec and of $2 700 000 from the Société de développement des coopératives on loans and advances previously granted by the government, and by the cancellation of the $11 800 000 provision included in the initial estimate.

Finally, since loans to fishermen and local funds financial requirements, in particular, fell short of the forecast levels, loans and advances to municipalities, municipal agencies, individuals, corporations and others were reduced by $3 600 000.

The surplus in the retirement plans account, estimated at $1 205 000 000 in the Budget Speech, came to $1 185 200 000. The $19 800 000 drop is the result of a slight reduction in employee contributions as well as the corresponding employer contributions, and lighter than anticipated interest charges on the balance of the account.

Transactions related to other non-budgetary accounts essentially reflect year-to-year changes in the accounts and accrued interest payable and receivable by the government. Such accounts normally change according to the overall volume of financial transactions; however, they may be subject to significant variations which are hard to forecast from one year to the next, since they depend basically on the synchronization of collection and disbursement transactions. For the 1984-1985 fiscal year, preliminary figures indicate a surplus of $156 000 000 in the balance of the other non-budgetary accounts compared to the $40 000 000 forecast in last May's Budget Speech.

This improvement is in large measure attributable to a $92 700 000 increase in the anticipated level of cheques in circulation but not cashed by the recipients as of March 31, by a $28 800 000 increase in anticipated accounts payable and by a $15 000 000 increase in the amount of accrued interest payable, resulting from an increase in the public debt service. On the other hand, this improvement has been offset to some extent by an increase of $15 700 000 in the level of cash in hand and outstanding deposits.

Repayments of Borrowings

Repayments of borrowings are expected to total $1 064 000 000 for the fiscal year 1984-1985, compared to $562 507 000 in 1983-1984. The preliminary figures are $274 000 000 higher than estimated in the Budget Speech. The difference is due, on the one hand, to the strong demand for redemption prior to maturity of savings bonds, sales of savings bonds having reached an all-time high of $1 233 600 000, and, on the other hand, to a reduction of $80 000 000 in the anticipated level of outstanding Treasury bills during 1984-1985.

Redemptions of savings bonds during 1984-1985 should total $499 000 000; the total outstanding of such bonds as at March 31, 1985, stands at $2 669 600 000.

TOTAL SAVINGS BONDS OUTSTANDING
(in millions of dollars)

Total outstanding as at March 31, 1984		1 935.0
Plus: 1983 issue	1.5[1]	
1984 issue	1 232.1[2]	1 233.6
Less: Redemptions		499.0
Total outstanding as at March 31, 1985		2 669.6

1 Amount received after March 31, 1984, from the issue of $729 406 000.

2 Amount received as of March 31, 1985, from the issue of $1 233 650 000.

2. FINANCING

The Québec government borrowed $3 280 800 000 during fiscal 1984-1985, an increase of $483 800 000 over the amount borrowed in 1983-1984. The higher level of borrowings, despite a reduction in net financial requirements, is due to increased refinancing of loan repayments over the previous year, and to a significant improvement in the government's cash position during the year.

Borrowings in Canadian dollars accounted for 73%, or $2 402 600 000, of the total, with 18%, or $597 200 000, in U.S. dollars and the balance in Japanese yen, German marks and pounds sterling.

The usual sources were employed for the bulk of borrowings in Canadian dollars: $1 233 600 000 was obtained from issuing savings bonds, $675 000 000 from the Caisse de dépôt et placement du Québec, $175 000 000 from a public borrowing on the Canadian market and $150 000 000 from a public borrowing on the Canadian Eurodollar market while the balance, some $169 000 000, was obtained from private transactions. However, for the first time since 1980-1981, Treasury bills made no contribution to the government's financing, despite the stepped-up pace of weekly offerings of 91-day Treasury bills. These offerings were increased by $5 000 000 per week as of the beginning of May 1984. This situation is attributable to the fact that $150 000 000 in privately placed Treasury bills issued in 1983-1984 matured during 1984-1985.

Financing in U.S. dollars consisted of a $329 900 000 issue on the U.S. domestic market, together with three private placements. Moreover, two transactions in Japanese yen yielded $133 600 000, while a deferred payment related to a loan negotiated in pounds sterling during the previous fiscal year produced a further $65 800 000. Finally, $81 600 000 was derived from a public issue on the German Euromark market.

Some aspects of the 1984-1985 fiscal year's financing program deserve particular attention. First, the unprecedented success of the Québec Savings Bond campaign should be noted. The $1 233 650 000 thus obtained, compared to $729 406 000 the previous year, covered 38% of the government's borrowing requirements. By raising the Canadian dollar proportion of the financing program, this operation gave Québec greater flexibility in its choice of foreign markets.

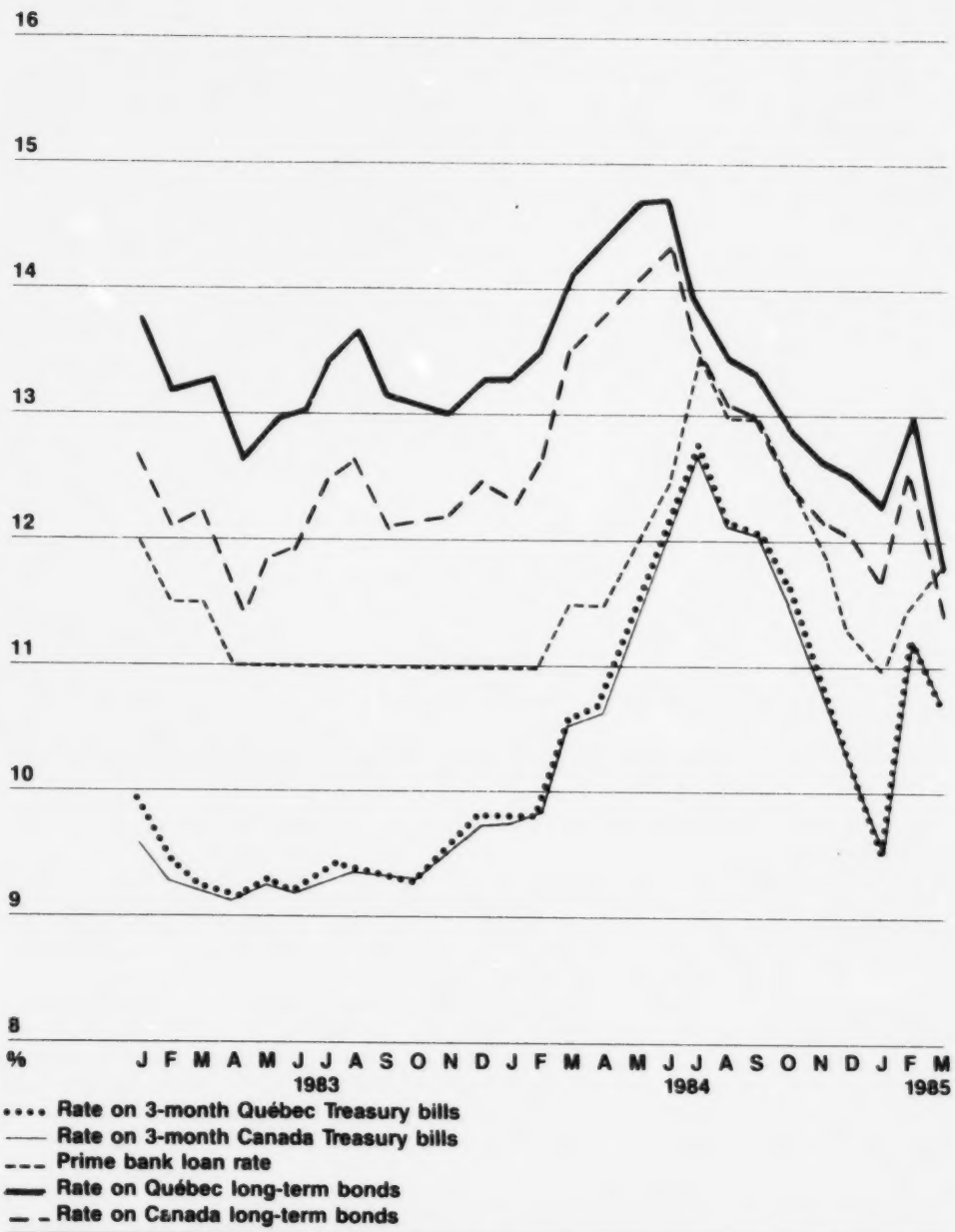
The year 1984-1985 also gave evidence of the high degree of confidence European investors place in the credit of Québec. Indeed, the $150 000 000 loan undertaken in January 1985 by the Québec government on the Canadian Eurodollar market was, at the time, the largest transaction ever carried out by any borrower on this market.

Moreover, Québec continued to diversify its sources of funds, with its first ever syndicate loan in Japanese yen in 1984-1985. In addition, private investments, excluding financing undertaken with the Caisse de dépôt et placement du Québec, covered 13% of financial requirements, the highest percentage for the last five years. Borrowings on European public markets provided the Québec Treasury with $297 400 000. Finally, it should be noted that Japanese investors were a significant source of funds, in both Canadian and U.S. dollars as well as Japanese yen.

In addition to the financing transactions mentioned above, which have directly influenced the results for 1984-1985, the Québec government also renegotiated over the course of the same fiscal year a syndicate credit arrangement of $1 000 000 000 US, on significantly better terms. On the other hand, the government has decided against renewing a $400 000 000 credit agreement which expired during the year.

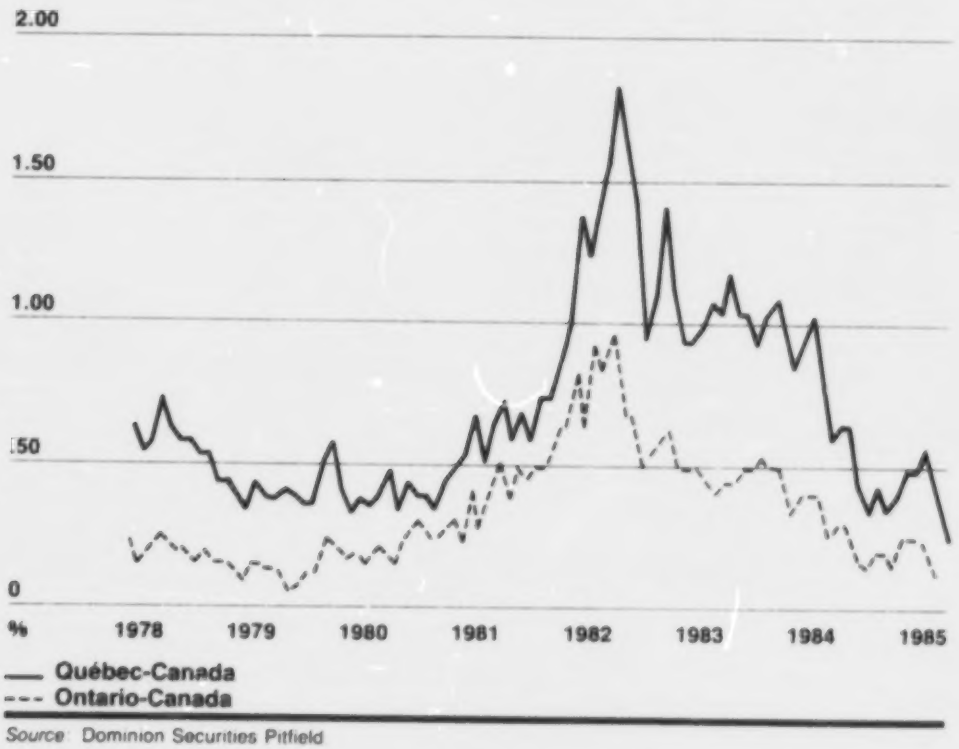
Finally, it should be pointed out that as a result of favourable market conditions, renewed investor confidence in Québec's credit worthiness, and a judicious selection from among the various public markets, Québec was able to finance its requirements on the Canadian market during 1984-1985 at yield spreads among the lowest ever recorded in relation to Government of Canada securities with equivalent maturities. The same applies to borrowings on foreign markets, when comparable securities are substituted for Government of Canada securities.

YIELD ON QUÉBEC SECURITIES AND OTHER SECURITIES IN 1983, 1984 AND 1985



Sources: Bank of Canada;
Dominion Securities Pitfield;
Ministère des Finances du Québec.

YIELD SPREAD BETWEEN QUÉBEC LONG-TERM SECURITIES AND OTHER SECURITIES
(in percentage points)



Source: Dominion Securities Pitfield

3. DEBT

The Québec government's debt, including total outstanding Treasury bills, stands at $20 626 000 000 as at March 31, 1985. The proportion of the total debt expressed in Canadian dollars declined slightly in 1984-1985, from 74.1% to 73.2%, while that in foreign currencies rose to 26.8%. During the same period, the proportion of the debt at fixed rates dropped slightly, from 75.9% to 75.3%; that at variable rates was 24.7% at the end of the 1984-1985 fiscal year. However, certain interest rate and currency exchange transactions related to the servicing of borrowings made by the government over the past few years have altered the structure of its debt commitments. In this way, the share of the government's commitments to be met in Canadian dollars for the repayment of its debt was increased to 73.9% of its total debt while the proportion of its commitments bearing interest at fixed rates was increased to 75.6%.

Moreover, new borrowings undertaken in 1984-1985 were secured for longer terms than those on the total debt as at March 31, 1984. As a result, the average term of the government's debt excluding savings bonds and Treasury bills rose from 9.0 years at the end of 1983-1984 to 9.6 years as at March 31, 1985. Total savings bonds outstanding as at the same date stand at $2 669 600 000, or 12.9% of the government's total debt. Total outstanding Treasury bills fell to $1 405 000 000, representing 6.8% of the total debt at the end of the fiscal year.

GOVERNMENT DEBT
ESTIMATE AT MARCH 31, 1985[1]

Currency of issue	Millions of dollars	Proportion of total (%)
Canadian dollars	15 090	73.2
U.S. dollars	3 687	17.9
German marks	631	3.1
Japanese yen	567	2.7
Pounds sterling	284	1.4
Swiss francs	183	0.9
European units of account	70	0.3
ECUs	58	0.3
Dutch guilders	46	0.2
French francs	10	—
	20 626	**100.0**

1 Not including temporary borrowings.

N.B. The debt in foreign currency is expressed in the Canadian equivalent on the date of borrowings.

4. PUBLIC SECTOR BORROWINGS AND INVESTMENTS

During the 1984 calendar year, gross long-term borrowings in the public sector totalled $6 766 000 000, an increase of $635 000 000 in relation to the preceding year. This increase in gross borrowings is attributable to all the components of the public sector, with the exception of Hydro-Québec and other government corporations. The marked increase in the gross borrowings of educational institutions has not resulted from an increase in investments, but from a rise in lapsed and refinanced borrowings combined with a catching up in long-term financing effected with respect to investments in preceding years. Problems related to legislative amendments made as of 1980 with regard to the real estate taxation systems and the elaboration of a new guarantee formula have caused delays in effecting these borrowings.

LONG-TERM PUBLIC SECTOR BORROWINGS
(in millions of dollars)

	Calendar year					
	1979	1980	1981	1982	1983	1984[1]
Gross borrowings						
Government[2]	1 536	2 734	2 336	2 840	2 405	3 213
Educational institutions[3]	240	197	131	244	421	791
Health and welfare institutions	62	107	139	233	92	133
Hydro-Québec[2]	1 783	2 156	2 257	2 276	1 791	1 100
Other government corporations	93	117	449	329	484	328
Municipal agencies	663	773	1 045	1 084	938	1 201
Total	**4 377**	**6 084**	**6 357**	**7 006**	**6 131**	**6 766**
Repayments	**1 270**	**1 783**	**2 084**	**2 261**	**2 079**	**3 181**
Net borrowings	**3 107**	**4 301**	**4 273**	**4 745**	**4 052**	**3 585**

1 Preliminary results.

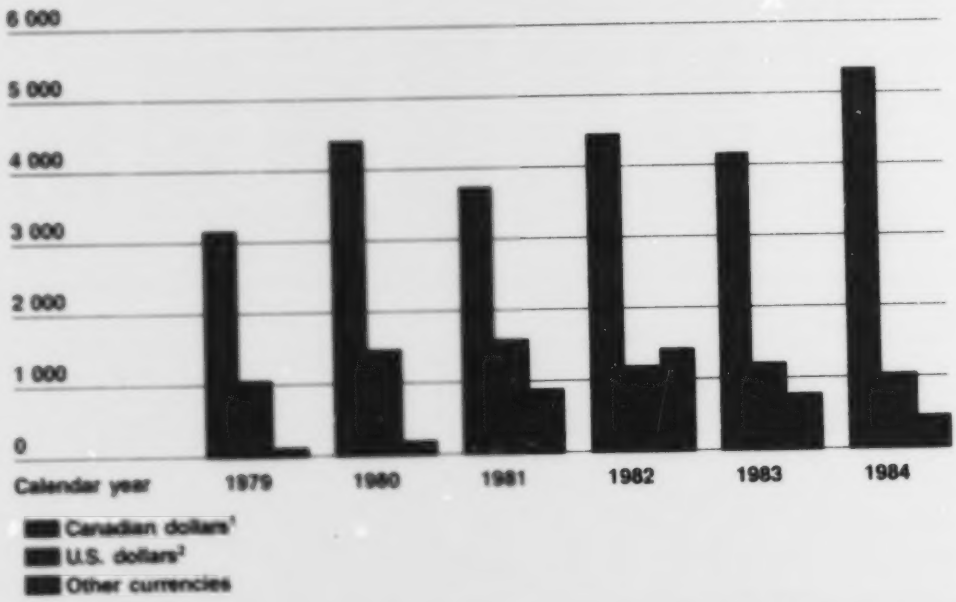
2 Amounts received during the calendar year, excluding less-than-one-year net borrowings as long-term financing transactions, which explains the difference between this list and the list of borrowings given later in this text.

3 Including all the universities in Québec, while BSQ statistics consider only the Université du Québec.

Source: Ministère des Finances du Québec.

As the following graph illustrates, gross borrowings expressed in Canadian dollars totalled $5 231 000 000 in 1984, which represents more than 77% of total public sector borrowings. Gross borrowings payable in U.S. dollars reached $1 070 000 000, or 16% of total gross borrowings; borrowings in other currencies amounted to $465 000 000, or 7% of the total.

GROSS PUBLIC SECTOR BORROWINGS
BY CURRENCY
(In millions of dollars)



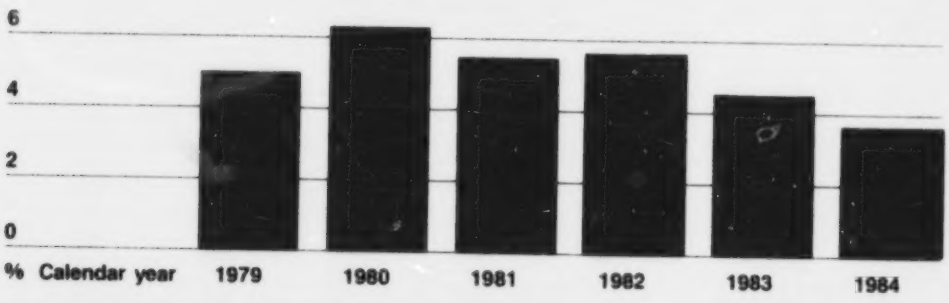
1 Including borrowings on Euromarkets made payable in Canadian dollars in the amount of $50 000 000 in 1979, $100 000 000 in 1980, $250 000 000 in 1981, $896 000 000 in 1982, $262 000 000 in 1983 and $513 000 000 in 1984.

2 Including borrowings on Euromarkets made payable in U.S. dollars in the amount of $315 000 000 in 1979, $539 000 000 in 1980, $794 000 000 in 1981, $442 000 000 in 1982, $255 000 000 in 1983 and $616 000 000 in 1984.

Source: Ministère des Finances du Québec.

Moreover, taking into account refinancing and repayments, net public sector borrowings totalled $3 585 000 000 in 1984. As the following graph indicates, the ratio between net borrowings and gross domestic product was 3.6% in 1984, the lowest figure during the period in question.

NET PUBLIC SECTOR BORROWINGS AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT



Source: Ministère des Finances du Québec.

PUBLIC SECTOR INVESTMENTS (in millions of dollars)

	Calendar year					
	1979	1980	1981	1982	1983	1984[1]
Government[2]	749	712	802	712	742	929
Educational institutions[3]	218	213	259	224	276	277
Health and welfare institutions[3]	124	157	166	148	165	191
Hydro-Québec[4]	2 818	2 592	2 668	2 546	2 248	1 681
Other government corporations[5]	356	386	374	342	369	414
Municipal agencies[6]	823	845	961	902	953	1 082
	5 088	**4 905**	**5 230**	**4 874**	**4 753**	**4 574**

1 Preliminary results.

2 Government investments include its capital expenditures as well as grants and loans for investments made available to economic agents outside the public sector. Financial investments within the public sector are excluded.
Sources: The Estimates and Public Accounts.

3 Investments by school boards, Cegeps and universities, as well as health and welfare institutions, include only capital expenditures for new projects, as defined for the purposes of economic accounting.
Sources: Investissements publics au Québec par région administrative, BSQ; Investissements privés et publics au Québec, BSQ.

4 *Source*: Hydro-Québec.

5 Government corporation investments correspond to an increase in long-term assets. Investments of the Société québécoise d'assainissement des eaux are included under "municipal agencies".
Sources: Financial statements of government corporations.

6 Investments by municipalities, urban and regional communities and transport commissions and corporations include only capital expenditures for new projects, as defined for the purposes of economic accounting.
Sources: Investissements publics au Québec par région administrative, BSQ; Investissements privés et publics au Québec, BSQ; Ministère des Finances du Québec estimates for 1980 to 1984.

In 1984, public sector investments totalled $4 574 000 000, a drop of 3.8% from 1983. As the preceding table indicates, this decrease is entirely attributable to Hydro-Québec, whose investments fell by $567 000 000.

In order to take into account the interrelationships between the government's financial policy and the state of the various sectors under its jurisdiction, comparative changes in borrowings and investments must take into account the situation of the public sector as a whole. Net total public sector borrowings include, in addition to the net long-term borrowings mentioned earlier, less-than-one-year net borrowings made as long-term financing transactions, including Treasury bills issued by the government, as well as borrowings from the surplus in the government's retirement plans account.

TOTAL NET BORROWINGS AND INVESTMENTS BY THE PUBLIC SECTOR (In millions of dollars)

	Calendar year					
	1979	1980	1981	1982	1983	1984[1]
Net long-term borrowings	3 107	4 301	4 273	4 745	4 052	3 585
Less-than-one-year net borrowings as long-term financing transactions	—	415	395	309[2]	636[3]	– 20[4]
Surplus in the government retirement plans account	591	787	961	1 040	1 055	1 158
Total net borrowings	3 698	5 503	5 629	6 094	5 743	4 723
Investments	5 088	4 905	5 230	4 874	4 753	4 574
Ratio	0.73	1.12	1.08	1.25	1.21	1.03

1 Preliminary results.

2 Including $300 000 000 in government Treasury bills.

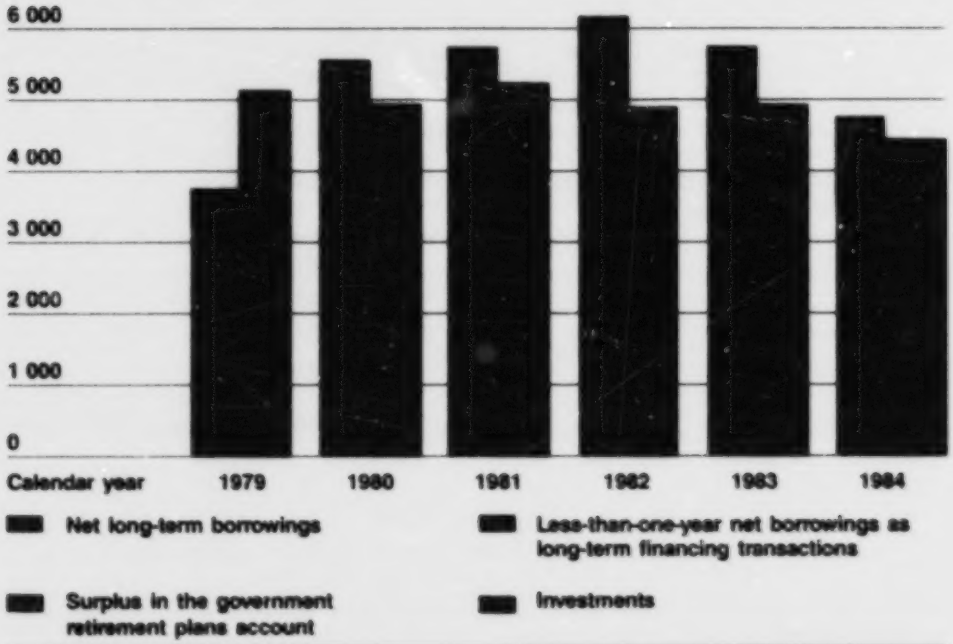
3 Including $310 000 000 in government Treasury bills.

4 Including – $15 000 000 in government Treasury bills.

Source: Ministère des Finances du Québec.

In 1984, total net public sector borrowings are estimated at $4 723 000 000, a reduction of $1 020 000 000 in relation to 1983. This decrease in net borrowings, combined with the drop in the level of investments, resulted in a decrease in the ratio of total net borrowings to investments from 1.21 to 1.03.

TOTAL NET BORROWINGS AND INVESTMENTS BY THE PUBLIC SECTOR (in millions of dollars)



Sources: Ministère des Finances du Québec.
Investissements privés et publics au Québec, BSQ.
The Estimates and Public Accounts.
Annual financial statements of government corporations.

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
SUMMARY
(in millions of dollars)

	1976-1977	1977-1978	1978-1979	1979-1980	1980-1981	1981-1982	1982-1983	1983-1984	Preliminary results 1984-1985[1]
1. Budgetary transactions									
Revenue	+ 9 715.9	+ 11 145.3	+ 11 899.0	+ 13 276.7	+ 14 694.0	+ 17 481.7	+ 19 210.3	+ 21 410.9	+ 22 340.0
Expenditure	– 10 717.4	– 12 045.2	– 13 387.2	– 15 110.3	– 17 592.0	– 20 393.4	– 22 259.3	– 24 523.5	– 25 515.0
Deficit	– 1 001.5	– 899.9	– 1 488.2	– 1 833.6	– 2 898.0	– 2 911.7	– 3 049.0	– 3 112.6	– 3 175.0
2. Non-budgetary transactions									
Investments, loans and advances	– 182.5	– 248.1	– 255.0	– 202.7	– 40.4	– 72.9	– 135.0	– 150.5	– 172.3
Retirement plans account	+ 186.4	+ 264.4	+ 315.7	+ 682.8	+ 822.3	+ 1 007.3	+ 1 051.2	+ 1 056.7	+ 1 185.2
Other accounts	– 335.5	– 287.4	+ 165.9	– 16.1	– 196.6	– 169.0	– 103.5	– 14.4	+ 156.0
Balance	– 331.6	– 271.1	+ 226.6	+ 464.0	+ 585.3	+ 765.4	+ 812.7	+ 891.8	+ 1 168.9
3. Net financial requirements	– 1 333.1	– 1 171.0	– 1 261.6	– 1 369.6	– 2 312.7	– 2 146.3	– 2 236.3	– 2 220.8	– 2 006.1
4. Financing									
Change in cash position	+ 330.7	+ 372.4	+ 49.6	+ 229.3	– 456.1	+ 207.9	– 75.5	– 13.7	– 210.7
New borrowings	+ 1 354.6	+ 1 042.3	+ 1 575.5	+ 1 648.9	+ 3 352.9	+ 2 951.6	+ 2 761.8	+ 2 797.0	+ 3 280.8
Less: Repayments of borrowings	– 352.2	– 243.7	– 363.5	– 508.6	– 584.1	– 1 013.2	– 450.0	– 562.5	– 1 064.0
Total	**+ 1 333.1**	**+ 1 171.0**	**+ 1 261.6**	**+ 1 369.6**	**+ 2 312.7**	**+ 2 146.3**	**+ 2 236.3**	**+ 2 220.8**	**+ 2 006.1**

N.B.: A (–) sign indicates a financial requirement and a (+) sign, a source of financing. For the change in cash position, a (–) sign indicates an increase and a (+) sign, a decrease. For comparison purposes, the financial data shown are based on the budgetary and financial structure in force for the 1985-1986 fiscal year.

1 The financial data shown in this table for 1984-1985 are determined on the basis of the results recorded for the period April 1984 to February 1985 and of an estimate as at April 4, 1985, of revenue and expenditure posted to the lapsed fiscal year, in March and April 1985, according to the accounting practices in effect.

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
BUDGETARY REVENUE
(in millions of dollars)

	1976-1977	1977-1978	1978-1979	1979-1980	1980-1981	1981-1982	1982-1983	1983-1984	Preliminary results 1984-1985
1. Income and property taxes									
Personal income tax	3 247.1	3 903.2	4 227.3	4 621.6	5 315.9	6 053.1	6 311.3	6 763.7	7 166.0
Employer contributions to health services fund	368.9	437.9	482.9	521.1	601.9	1 275.0	1 337.1	1 440.8	1 489.0
Corporate taxes[1]	588.9	541.6	624.9	765.2	913.4	1 010.5	898.4	860.3	983.0
Succession duties	27.4	24.6	25.0	41.9	39.8	37.8	45.0	46.7	46.0
Property tax	—	—	—	15.7	—	—	—	—	—
	4 232.3	4 907.3	5 360.1	5 965.5	6 871.0	8 376.4	8 591.8	9 111.5	9 684.0
2. Consumer taxes									
Retail sales	1 341.1	1 423.1	1 366.0	1 621.0	1 690.2	1 771.3	1 936.7	2 277.4	2 588.0
Fuel	428.5	451.0	445.9	445.1	492.7	826.9	1 194.9	1 207.5	1 034.0
Tobacco	82.8	82.2	136.0	139.0	179.3	228.6	277.0	312.6	360.0
Meals and hotel	125.3	150.1	154.3	178.5	209.7	236.6	249.3	274.5	301.0
Other[2]	32.4	39.5	47.4	55.6	62.0	79.2	89.2	102.6	112.0
	2 010.1	2 145.9	2 149.6	2 439.2	2 633.9	3 142.6	3 747.1	4 174.6	4 395.0
3. Duties and permits									
Motor vehicles	163.0	168.4	186.7	191.0	193.7	224.7	285.4	259.6	265.0
Alcoholic beverages	54.6	55.1	57.1	57.9	55.7	62.8	58.8	65.0	68.0
Natural resources[3]	50.9	78.7	89.9	95.0	124.1	143.2	86.5	83.1	107.0
Pari-mutuel	22.2	23.9	24.9	26.1	33.9	33.3	31.5	31.1	30.0
Other	29.8	27.7	35.8	48.0	52.2	51.9	65.1	71.8	71.0
	320.5	353.8	394.4	418.0	459.6	515.9	527.3	510.6	541.0
4. Miscellaneous									
Sale of goods and services	136.1	152.6	152.2	166.3	166.7	181.6	217.7	301.2	210.0
Interest	148.1	118.7	138.6	154.3	184.8	221.6	294.6	277.8	277.0
Fines, confiscations and recoveries	52.8	57.8	51.2	49.8	68.3	90.2	95.5	108.5	94.0
	337.0	329.1	342.0	370.4	419.8	493.4	607.8	687.5	581.0
5. Transfers from government corporations									
Société des alcools du Québec	165.0	180.0	215.0	160.0	203.0	225.0	275.0	325.0	350.0
Loto-Québec	70.1	73.3	85.2	100.0	135.0	150.0	162.0	205.0	240.0
Other government corporations	20.0	20.0	20.0	—	—	6.9	7.0	60.2	156.0
	255.1	273.3	320.2	260.0	338.0	381.9	444.0	590.2	746.0
Total own-source revenue	**7 155.0**	**8 009.4**	**8 566.3**	**9 453.1**	**10 722.3**	**12 910.2**	**13 918.0**	**15 074.4**	**15 947.0**
6. Government of Canada transfers									
Equalization	1 145.4	1 277.5	1 340.3	1 708.6	1 847.2	2 317.8	3 071.9	3 227.4	3 102.0
Other transfers related to the fiscal arrangements	845.0	1 197.4	1 201.6	1 198.7	1 189.2	1 225.8	1 101.3	1 720.8	1 833.0
Contributions to welfare programs	389.5	365.1	408.3	533.9	586.7	663.7	822.8	1 043.7	1 148.0
Other programs	181.0	295.9	382.5	382.4	348.6	364.2	296.3	344.6	310.0
Total Government of Canada transfers	**2 560.9**	**3 135.9**	**3 332.7**	**3 823.6**	**3 971.7**	**4 571.5**	**5 292.3**	**6 336.5**	**6 393.0**
Total budgetary revenue	**9 715.9**	**11 145.3**	**11 899.0**	**13 276.7**	**14 694.0**	**17 481.7**	**19 210.3**	**21 410.9**	**22 340.0**

1 Includes tax on corporate profits, on capital and on insurance premiums.

2 Includes tax on telecommunications and on electronic advertising.

3 Includes forest, mining and water resources.

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
BUDGETARY EXPENDITURE
(in millions of dollars)

Departments	1976-1977	1977-1978	1978-1979	1979-1980	1980-1981	1981-1982	1982-1983	1983-1984	Preliminary results 1984-1985
Affaires culturelles	43.8	59.5	73.8	79.7	101.9	109.9	122.6	135.2	159.0
Affaires municipales	167.6	171.2	215.4	252.0	339.4	410.7	421.9	451.9	502.5
Affaires sociales	2 616.7	2 818.3	3 185.8	3 503.1	3 905.3	4 544.2	5 194.2	5 438.3	5 756.6
Agriculture, Pêcheries et Alimentation	212.2	237.4	259.7	296.1	350.7	378.1	429.7	415.6	460.7
Assemblée nationale	17.0	20.4	24.4	26.6	28.3	32.4	35.3	39.7	45.5
Commerce extérieur	4.6	3.9	5.2	4.9	5.4	5.9	10.5	13.5	17.1
Communautés culturelles et Immigration	15.2	17.2	24.3	32.4	44.2	39.7	42.6	42.6	45.0
Communications	74.3	84.6	98.5	116.5	139.0	155.5	175.3	194.4	208.4
Conseil exécutif	6.1	65.8	39.7	37.7	29.4	26.4	25.2	29.2	42.2
Conseil du trésor	4.2	4.9	6.2	8.6	9.3	11.0	13.8	12.3	12.9
Éducation	2 137.2	2 391.3	2 474.2	2 638.9	3 578.7	4 253.5	4 301.8	4 690.1	4 319.0
Énergie et Ressources	114.5	126.2	158.2	180.0	204.2	253.5	248.1	281.3	344.7
Enseignement supérieur, Science et Technologie	921.3	1 143.0	1 280.7	1 394.9	1 586.6	1 820.5	1 943.7	2 066.9	2 157.3
Environnement	33.0	40.7	48.0	58.6	83.0	89.8	111.4	123.5	139.6
Finances	570.5[1]	683.6[1]	816.4[1]	961.9[1]	1 275.0	1 737.6	1 988.8	2 368.2	2 512.3
Habitation et Protection du consommateur	71.8	90.6	116.6	139.8	169.8	218.7	263.9	297.9	343.0
Industrie et Commerce	68.4	83.3	90.1	93.2	114.2	116.5	126.2	258.4	316.1
Justice	326.2	331.6	373.0	428.7	493.7	577.2	618.9	646.1	707.0
Loisir, Chasse et Pêche	115.5	147.3	153.1	172.5	187.1	186.4	199.6	216.3	219.6
Main-d'oeuvre et Sécurité du revenu	854.2	985.6	1 096.5	1 258.1	1 474.1	1 631.0	2 017.8	2 430.4	2 606.4
Organisme relevant du ministre délégué au Développement et à la Voirie des régions	18.3	12.0	19.8	19.6	27.6	21.9	28.0	44.3	48.7
Organisme relevant du ministre délégué aux Relations avec les citoyens	—	—	—	3.6	15.4	19.3	22.6	25.8	33.7
Organismes relevant de la ministre déléguée à la Condition féminine	5.6	7.6	11.6	16.4	29.6	34.0	42.7	50.3	56.9
Organismes relevant du ministre délégué à l'Administration	42.5	44.1	61.3	395.3	449.9	565.5	614.2	665.0	769.3
Personnes désignées par l'Assemblée nationale	19.9	6.6	20.6	30.3	65.3	36.5	17.7	18.9	38.7
Régie de l'assurance-maladie du Québec	603.8	705.2	787.0	932.6	1 083.7	1 173.4	1 162.6	1 356.6	1 471.5
Régie des installations olympiques	—	9.7	6.0	6.7	3.7	5.2	6.7	5.4	6.9
Relations internationales	20.5	28.2	33.8	39.3	43.2	41.0	42.4	45.1	51.7
Revenu	452.0	479.2	564.9	471.5	186.1	196.7	213.9	240.3	238.3
Tourisme	15.9	17.0	17.7	20.3	21.8	25.6	31.2	40.0	67.7
Transports	1 034.6	1 058.7	1 122.2	1 245.8	1 298.9	1 384.7	1 482.2	1 578.4	1 623.5
Travail	6.7	6.4	9.5	19.0	13.7	41.3	37.2	40.1	42.5
Travaux publics et Approvisionnement	123.3	164.1	193.0	225.7	233.8	249.8	266.6	261.5	150.7
Total budgetary expenditure	**10 717.4**	**12 045.2**	**13 387.2**	**15 110.3**	**17 592.0**	**20 393.4**	**22 259.3**	**24 523.5**	**25 515.0**

1 Includes the variation in the provision for bad debts amounting to $40 599 000 in 1976-1977, $38 934 000 in 1977-1978, $22 041 000 in 1978-1979 and $31 516 000 in 1979-1980. Starting in 1980-1981, this variation is entered directly under the net debt.

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
NON-BUDGETARY TRANSACTIONS
(in millions of dollars)

	1976-1977	1977-1978	1978-1979	1979-1980	1980-1981	1981-1982	1982-1983	1983-1984	Preliminary results 1984-1985
1. Investments, loans and advances									
ENTERPRISES OF THE GOUVERNEMENT DU QUÉBEC									
SHARE CAPITAL AND INVESTED CAPITAL									
Sidbec	- 53.0	- 84.8	- 81.8	- 162.8	- 55.2	- 20.4	—	—	—
Société de récupération, d'exploitation et de développement forestiers du Québec (REXFOR)	- 3.8	- 7.4	- 4.2	- 1.2	- 22.2	—	—	—	- 0.5
Société générale de financement (SGF)	- 24.5	- 9.7	- 10.0	—	- 25.0	- 33.0	- 40.0	- 31.0	- 51.5
Société nationale de l'amiante (SNA)	—	—	- 4.7	- 5.7	- 19.7	- 6.8	- 12.2	- 10.7	- 35.0
Société québécoise d'exploration minière (SOQUEM)	- 7.6	- 3.4	- 9.9	- 18.9	- 24.5	—	—	- 10.0	- 11.6
Société québécoise d'initiatives agro-alimentaires (SOQUIA)	- 2.9	- 7.0	- 3.0	- 19.0	- 3.0	—	- 5.0	- 6.4	- 5.4
Société québécoise d'initiatives pétrolières (SOQUIP)	- 7.5	- 9.0	- 15.5	- 15.7	- 9.8	- 22.5	- 26.5	- 30.0	- 40.0
Other	- 10.6	+ 1.9	- 1.8	- 35.8	- 14.3	- 3.6	- 20.8	- 46.7	- 11.3
	- 109.9	- 119.4	- 130.9	- 259.1	- 173.7	- 86.3	- 104.5	- 134.8	- 155.3
LOANS AND ADVANCES									
Office du crédit agricole du Québec	- 41.5	- 55.6	- 33.5	+ 60.2	+ 53.8	+ 47.2	+ 16.6	+ 12.1	+ 11.9
Sidbec	—	- 27.1	- 25.0	+ 52.1	- 10.0	- 1.4	- 10.1	- 12.5	- 33.2
Société d'habitation du Québec (SHQ)	- 6.6	- 17.1	- 35.0	- 39.8	+ 1.3	+ 7.2	- 1.2	+ 6.7	+ 11.6
Société immobilière du Québec (SIQ)	+ 3.8[1]	—	+ 0.2[1]	—	—	—	—	—	—
Other	- 11.9	- 26.9	- 24.3	- 0.1	+ 98.6	- 8.7	+ 0.2	- 14.2	+ 8.3
	- 56.2	- 126.7	- 117.6	+ 72.4	+ 143.7	+ 44.3	+ 5.5	- 7.9	- 1.4
Total enterprises of the gouvernement du Québec	- 166.1	- 246.1	- 248.5	- 186.7	- 30.0	- 42.0	- 99.0	- 142.7	- 156.7
MUNICIPALITIES AND MUNICIPAL AGENCIES	- 10.5	- 1.1	+ 1.0	+ 0.7	+ 1.4	+ 1.5	+ 1.6	+ 1.6	+ 1.9
INDIVIDUALS, CORPORATIONS AND OTHERS	- 5.9	- 0.9	- 7.5	- 16.7	- 11.8	- 32.4	- 37.6	- 9.4	- 17.5
Total investments, loans and advances	- 182.5	- 248.1	- 255.0	- 202.7	- 40.4	- 72.9	- 135.0	- 150.5	- 172.3

(1) Refunds of advances by the Société de développement immobilier du Québec, which has been replaced by the Société immobilière du Québec.

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
NON-BUDGETARY TRANSACTIONS (cont'd.)
(in millions of dollars)

	1976-1977	1977-1978	1978-1979	1979-1980	1980-1981	1981-1982	1982-1983	1983-1984	Preliminary results 1984-1985
2. Retirement plans account									
EMPLOYER AND EMPLOYEE CONTRIBUTIONS									
Contributions by the government as an employer:									
RREGOP									
Current service	+ 203.2	+ 262.8	+ 273.8	+ 304.1	+ 388.5	+ 418.6	+ 353.9	+ 302.2	+ 319.6
Interest	—	—	+ 54.0	+ 87.6	+ 130.8	+ 192.0	+ 259.6	+ 313.6	+ 379.4
Other plans									
Current service	+ 3.1	+ 3.4	+ 3.4	+ 168.9	+ 169.6	+ 194.8	+ 186.9	+ 172.0	+ 166.5
Past service	—	—	—	+ 172.0	+ 172.7	+ 224.3	+ 246.5	+ 278.4	+ 337.0
Interest	—	—	—	—	+ 33.8	+ 71.4	+ 119.9	+ 166.7	+ 218.4
Total	+ 206.3	+ 266.2	+ 331.2	+ 732.6	+ 895.4	+ 1 101.1	+ 1 166.8	+ 1 232.9	+ 1 420.9
Independent agencies									
Current service	+ 13.4	+ 6.4	+ 6.4	+ 6.6	8.0	+ 8.8	+ 7.7	+ 5.6	+ 4.9
Past service	—	+ 24.6	+ 18.4	+ 18.0	+ 18.0	+ 18.0	+ 18.0	+ 17.0	+ 17.0
Total	+ 13.4	+ 31.0	+ 24.8	+ 24.6	+ 26.0	+ 26.8	+ 25.7	+ 22.6	+ 21.9
Employee contributions	+ 81.5	+ 103.7	+ 125.3	+ 123.9	+ 125.3	+ 143.6	+ 168.0	+ 160.4	+ 153.2
Total contributions	+ 301.2	+ 400.9	+ 481.3	+ 881.1	+ 1 046.7	+ 1 271.5	+ 1 360.5	+ 1 415.9	+ 1 596.0
BENEFITS AND OTHER PAYMENTS									
Benefits and refunds	- 87.3	- 119.2	- 142.8	- 176.5	- 203.7	- 238.4	- 287.8	- 340.2	- 389.8
Other outlays	- 27.5	- 17.3	- 22.8	- 21.8	- 20.7	- 25.8	- 21.5	- 19.0	- 21.0
Total	- 114.8	- 136.5	- 165.6	- 198.3	- 224.4	- 264.2	- 309.3	- 359.2	- 410.8
Total retirement plans account	+ 186.4	+ 264.4	+ 315.7	+ 682.8	+ 822.3	+ 1 007.3	+ 1 051.2	+ 1 056.7	+ 1 185.2
3. Other accounts									
Cash and negotiable securities in hand and outstanding deposits	- 3.8	- 34.1	+ 9.8	- 4.3	+ 7.5	+ 0.7	+ 4.2	- 21.2	- 15.7
Outstanding cheques	+ 34.8	- 14.7	+ 37.7	+ 16.3	+ 21.1	- 90.4	+ 134.0	- 108.2	+ 92.7
Clearing accounts for collected taxes	+ 24.8	+ 36.0	+ 13.4	+ 5.8	+ 8.6	+ 46.7	+ 4.0	- 6.0	+ 16.7
Accounts receivable	- 205.1	- 110.8	- 3.0	- 197.0	- 106.3	- 409.3	- 292.0	- 197.1	- 73.5
Accrued interest receivable	+ 1.9	- 5.3	- 12.7	- 0.5	+ 0.5	+ 1.7	- 0.3	+ 4.3	—
Advances from the trust funds	+ 3.5	+ 0.7	+ 4.7	—	+ 4.5	- 0.7	+ 4.9	+ 2.8	+ 2.0
Accounts payable	- 219.8	- 184.7	+ 83.0	+ 112.8	- 273.9	+ 183.2	- 151.9	+ 221.5	- 31.2
Accrued interest payable	+ 28.2	+ 25.5	+ 33.0	+ 50.8	+ 141.4	+ 99.1	+ 193.6	+ 89.5	+ 165.0
Total other accounts	- 335.5	- 287.4	+ 165.9	- 16.1	- 196.6	- 169.0	- 103.5	- 14.4	+ 156.0
Total non-budgetary transactions	**- 331.6**	**- 271.1**	**+ 226.6**	**+ 464.0**	**+ 585.3**	**+ 765.4**	**+ 812.7**	**+ 891.8**	**+ 1 168.9**

LIST OF BORROWINGS BY THE GOUVERNEMENT DU QUÉBEC IN 1984-1985

Amount in Canadian dollars[1]	Face value in foreign currency	Interest rate[2]	Date of issue	Date of maturity	Price to buyer	Yield to buyer[3]
(in millions)		%			$	%
50.0		13.00	April 7	2003-04-07	100.875	12.88
50.0		14.00	May 25	1994-05-25	100.00	14.00
150.0[4]		14.625	May 31	2004-05-31	99.84	14.65
1.5[5]		9.50/8.50*	June 1, 1983	1993-06-01	100.00	—
1 232.1[6]		11.75/8.50*	June 1	1994-06-01	100.00	—
1.4[7]		16.29*	June 14, 1982	1988/92-06-14	100.00	15.67
65.8[8]	37.5 £	12.25	July 12	2020-03-15	97.80	12.52
53.8	10 000.0 ¥	8.10	July 27	1989/94-07-27	100.00	8.10
62.2		12.25	August 13	1994-02-27	96.475	12.90
150.0[4]		13.25	August 31	1994-08-31	99.673	13.31
132.0	100.0 US	12.75	September 15	1994-09-15	99.50	12.84
197.9	150.0 US	13.25	September 15	2014-09-15	99.339	13.34
155.0[4]		12.50	November 29	1994-11-29	98.75	12.72
95.0		12.75	November 29	2004-11-29	99.50	12.82
75.0[4]		12.50	December 10	1994-11-29	100.33	12.44
75.0[4]		12.75	December 10	2004-11-29	100.20	12.72
75.0[4]		12.15	December 28	1994-12-28	100.00	12.15
75.0[4]		12.60	December 28	2004-12-28	100.00	12.60
66.1	63.0 US	11.88*[9]	January 10	1995-01-10	79.389	11.55
150.0		12.00*	January 15	1995-01-15	100.00	11.66
66.3	64.1 US	11.93*[10]	January 29	1995-01-29	78.00	11.60
81.6	200.0 DM	7.625*	February 15	1995-02-15	100.25	7.45
134.9	122.0 US	12.03*[11]	February 25	1992-02-25	82.30	11.68
79.8	15 000.0 ¥	7.6	February 28	1990/95-02-28	100.00	7.6
5.4[12]		Miscellaneous	Varied	2004/2005	100.00	Miscellaneous
3 280.8						

* Interest payable annually.

1 Canadian equivalent of face value on the date of borrowing for loans in foreign currency.

2 Interest payable semi-annually, except that on Treasury bills, which is payable upon maturity, and that marked with an asterisk, which is payable annually.

3 Yield to buyer is determined on the basis of interest payable every six months.

4 The Caisse de dépôt et placement du Québec subscribed fully or partly for these bond issues.

5 Amount cashed from the June 1, 1983, savings bond issue. The interest rate on these bonds was 9.50% until May 31, 1984, is 11.75% until May 31, 1985, and will be 8.50% thereafter until May 31, 1993.

6 Amount cashed from the June 1, 1984, savings bond issue. The interest rate on these bonds is 11.75% until May 31, 1985, and will be 8.50% thereafter until May 31, 1994.

7 Interest capitalized on a discount loan issued on June 14, 1982, whose total face value at maturity should reach $50 000 000 on paid capital of $33 400 000.

8 Balance cashed on July 12, 1984, on a loan of £50 000 000 contracted on February 15, 1984.

9 Effective rate to buyer. Nominal interest rate is 8.25%. The terms of the loan provide for a total face value at maturity of $63 000 000 US on paid capital of $50 015 070 US.

10 Effective rate to buyer. Nominal interest rate is 8.05%. The terms of the loan provide for a total face value at maturity of $64 100 000 US on paid capital of $49 998 000 US.

11 Effective rate to buyer. Nominal interest rate is 8.1436%. The terms of the loan provide for a total face value at maturity of $122 000 000 US on paid capital of $100 406 000 US.

12 Borrowings from the Government of Canada under the Canada Pension Plan.

N.B. The gouvernement du Québec made credit arrangements with various international banks and financial institutions for $1 250 000 000 US and $750 000 000. At March 31, 1985, balances available under these agreements were $350 000 000 US and $750 000 000.

LIST OF BORROWINGS BY HYDRO-QUÉBEC IN 1984

Amount in Canadian dollars[1]	Face value in foreign currency	Interest rate[2]	Date of issue	Date of maturity	Price to buyer	Yield to buyer[3]
(in millions)		%			$	%
50.0		12.50	February 15	1993-09-30	99.75	12.54
10.7[4]		[4]	March 16	1994-03-16	100.00	—
50.0		13.25	March 30	2005-09-30	98.50	13.46
50.0[5]		13.25	March 30	2005-09-30	98.375	13.48
50.0		13.25	March 30	2005-09-30	94.50	14.07
48.6	100.0 DM	7.50*	May 1	1989-05-01	100.00	7.36
48.6	100.0 DM	7.75*	May 1	1994-05-01	99.50	7.68
75.0		13.00*	May 15	1994-05-15	95.75	13.36
75.0		14.00*	July 5	1991-07-05	100.00	13.54
83.6	150.0 SF	5.875*	July 16	1994-07-16	100.0	5.79
64.3	12 000.0 ¥	8.10[6]	July 31	1994-07-31	100.00	8.10
80.0[5]		13.875	August 16	1989-08-16	100.00	13.875
115.0		14.25	August 16	1994-08-16	99.75	14.30
29.5[7]		12.75*	September 29	1993-09-29	100.00	12.37
110.0[5]		13.00	October 15	1994-10-15	99.45	13.10
77.0	150.0 SF	5.50*	October 19	1990-10-19	100.00	5.43
63.8	50.0 US	11.75-13.375	Varied	1988-1989	—	—
1 081.1						

* Interest payable annually.

1 Canadian equivalent of face value on the date of borrowing for loans in foreign currency.

2 Interest payable semi-annually, except that marked with an asterisk, which is payable annually.

3 Yield to the buyer is determined on the basis of interest payable every six months.

4 Rate set according to the yield on 91-day Canada Treasury bills. The amount of $10 700 000 represents the portion added to the outstanding amount following borrowing renegotiation; the proceeds of $125 000 000 then received mainly served to replace a $100 000 000 US borrowing recorded in the books at $114 300 000.

5 The Caisse de dépôt et placement du Québec subscribed fully or partly for these bond issues.

6 This loan bears interest at the rate for long-term loans (L.T.P.R.) requested by Japanese banks from their best customers, plus 0.2%.

7 Proceeds resulting from the use by holders of warrants subscribed at the time of an earlier issue.

N.B.: At December 31, 1984, Hydro-Québec had credit agreements of $750 000 000 available in U.S. dollars or in its equivalent in Canadian dollars.

APPENDIX III
Focus on Equalization

FOCUS ON EQUALIZATION

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FOCUS ON EQUALIZATION

INTRODUCTION

According to the estimates tabled by the Minister of Finance for the 1985-1986 fiscal year, equalization entitlements[1] are expected to drop by $183 000 000, or 6.0%, in relation to 1984-1985, despite the $110 000 000 the federal government decided to pay Québec. The problem of the drop in Québec's equalization entitlement in 1985-1986 has already been dealt with, in an Appendix to the Budget Speech in the spring of 1984, and has been broached during numerous representations by Québec's Prime Minister and Minister of Finance to their federal counterparts.

The purpose of this Appendix is to take stock of equalization. First, it briefly describes the objectives and operation of the equalization program and succinctly explains how the federal government was led to include in the new 1982 equalization formula a guarantee covering the first three years of the 1982-1987 fiscal arrangements. It then outlines the reasons which led the federal government to agree, at the end of the transitional guarantee, to make additional payments and explains the shortcomings of the federal decisions. The next section places discussions regarding equalization in the broader context of Québec-Ottawa financial relations and the forthcoming negotiations on all federal transfers to the provinces. Finally, the last part presents Québec's position with regard to equalization and the fiscal arrangements as a whole.

1. THE EQUALIZATION PROGRAM

Objective

Equalization is a federal program of unconditional transfers designed to enable the provinces to provide reasonably comparable public services without having recourse to excessive taxation. Given regional economic disparities, equalization makes it possible to distribute public services everywhere in Canada in quite a similar manner. The principle of equalization is now enshrined in the Canadian Constitution.

In practice, the equalization program attempts to remedy, with respect to several sources of revenue, fiscal deficiencies in a province, resulting from the fact that its economic resources are less abundant than those in the provinces which serve as a standard. At present, these provinces are Québec, Ontario, Manitoba, Saskatchewan and British Columbia.

The equalization formula is essentially a measuring device aimed at establishing to what extent provincial economies are different from each other with respect to their ability to generate revenues for provincial governments. Equalization payments make it possible to increase the fiscal capacity of the less privileged provinces to a certain level of uniformity. The level of uniformity chosen is calculated for each provincial source of revenue and it is determined by applying the average taxation rate of the ten provinces to each corresponding tax base in the provinces representing the norm.

Over the years, the body of revenues taken into account in calculating equalization has regularly been broadened. Moreover, the choice of the provinces which act as a standard of wealth has also been modified on a few occasions. Without reviewing the entire history of the program since its inception in 1957, it should be noted here how the program in effect between 1977 and 1982 operated, and what major changes were made to it in 1982 for the five-year period ending in 1987.

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1 Throughout this document, the concept of "equalization entitlement" is used; it must be distinguished from "equalization revenue" found in the statement of Québec government budgetary revenue. The distinction between both notions is similar to that between the cash basis of accounting and the accrual method. Equalization entitlement, in a fiscal year, comprises all payments with respect to that year, regardless of when they were received. Equalization revenue includes advances for the current year and any adjustment received with respect to preceding years. While the schedule of equalization payments as such does have some effect on the financial management of the provincial governments, the notion of "entitlement" makes it possible to better analyse an equalization formula or more adequately compare two different formulas.

The 1977-1982 program

The equalization program adopted by the federal government in 1977, in agreement with the provinces, was modified before it expired in 1982; the following description corresponds to provisions in the program which were in effect as at March 31, 1982.

The body of revenues taken into account under the 1977-1982 equalization program included all provincial government revenues except those derived from the development of non-renewable natural resources, which received special treatment. Indeed, only 50% of the latter were taken into account and revenues derived from the sale of oil and gas concessions were totally excluded. The federal government arrived at this solution when the rapid rise in oil revenues in producing provinces which followed the oil crisis at the beginning of the 1970s threatened to make the equalization program too costly.

With respect to the provinces selected to serve as a standard of wealth or fiscal capacity, the federal government opted to include all the provinces, i.e., Québec's relative wealth was determined by comparing its per capita wealth with that of Canada as a whole.

The 1982-1987 program

In 1982, to prevent the Western provinces' oil royalties from considerably increasing the cost of the equalization program in coming years — although only 50% of such revenues entered into the calculation of equalization payments — the federal government decided to amend the standard of fiscal capacity. From then on, the per capita wealth of each province would no longer be compared with per capita wealth for Canada as a whole, but with that of Québec, Ontario, Manitoba, Saskatchewan and British Columbia, which the federal government deemed to be "representative".

By comparing the wealth of recipient provinces to a wealth index which excluded Alberta, the richest province, it is obvious that these provinces appeared to be richer, in relative terms. As equalization is designed to remedy this disparity in wealth, changing the standard of fiscal capacity led to a sharp drop in the payments due to the provinces. Indeed, the impact of the change in standard was so considerable that the federal government was able to broaden the body of provincial revenues entering into the calculation of equalization payments to include 100% of natural resource revenues and 100% of local administration revenues, while banking on substantial savings in relation to what renewal of the old program would have cost it.

However, changing the standard had a more marked effect. It altered not only total equalization payments, but their distribution among recipient provinces. By excluding Alberta from the group of provinces establishing the standard, recipient provinces appeared appreciably better off in terms of fiscal capacity with regard to oil and gas revenues, thereby losing a large part of their equalization entitlement related to such revenues. Equalization payments related to oil and gas, however, made up a larger part of the total equalization payments for Québec and Manitoba than for the Atlantic provinces. When the federal government decided in 1982 to indirectly limit the importance of oil and gas revenues in the equalization program by changing the standard of wealth, it could not avoid more heavily penalizing Québec and Manitoba.

The federal government recognized that the new equalization formula created a problem for Québec and Manitoba, and it decided to introduce a transitional guarantee into the program, which was to cover the first three years of the 1982-1987 period. Under this provision, recipient provinces were assured of receiving, for each of the years in question, their 1981-1982 equalization entitlement, increased by an adjustment calculated according to the average increase in entitlement from 1977-1978 to 1981-1982; the adjustment was exactly equal to this average increase in 1982-1983, to $^{5}/_{3}$ of the average increase in 1983-1984 and to twice the average increase in 1984-1985.

2. THE TRANSITIONAL GUARANTEE AND ADDITIONAL PAYMENTS

The federal government anticipated in 1982 that this guarantee would smooth the transition between the old and new equalization formulas, by preventing a drop in the provinces' entitlements from one year to the next throughout the 1982-1987 period. The transitional guarantee did not play the role it was supposed to and has only made it possible to postpone the transition problem until 1985-1986. With the elimination of the transitional guarantee on April 1, 1985, and without taking into account additional payments announced recently by the federal government, four of the six recipient provinces would have experienced a drop in equalization entitlement in 1985-1986 in relation to 1984-1985. Québec would have received $293 000 000 less; Manitoba, $72 000 000 ; Nova Scotia, $18 000 000; and Prince Edward Island, $1 000 000. Furthermore, Manitoba's equalization entitlement would have dropped by some $30 000 000 in 1986-1987 as compared with 1985-1986.

The federal government decided to make lump-sum payments, which can be broken down as follows:

	1985-1986	1986-1987	Total	Total in $ per capita
	Millions of $			
Québec	110	—	110	17
Manitoba	50	65	115	108
Nova Scotia	20	—	20	23
New Brunswick	20	—	20	28
Newfoundland	15	—	15	26
Prince Edward Island	5	—	5	40

On the basis of preliminary data, for Québec, Manitoba and Nova Scotia, the amounts correspond to a guarantee identical to that stipulated in the legislation on fiscal arrangements for Newfoundland, New Brunswick and Prince Edward Island to the effect that their equalization entitlement may not fall below 95% of that in effect the preceding year. For the latter three provinces, the federal decision also ensures them of the per capita equivalent of the solution chosen with respect to the first three[1].

The proportion of the drop in equalization entitlement in 1985-1986 in relation to 1984-1985 which additional payments will cover is 38% for Québec, 70% for Manitoba, 114% for Nova Scotia, and more than 500% for Prince Edward Island. Newfoundland and New Brunswick will receive additional payments in 1985-1986, although the equalization formula would already have provided them with a substantially increased entitlement compared with 1984-1985, i.e., 5.3% and 5.9% respectively. In 1986-1987, the $65 000 000 additional payment made to Manitoba will cover 81% of the drop in equalization entitlement the province would have experienced that year in relation to 1985-1986.

1 The federal government actually paid rounded-off amounts to the provinces; this explains why the table above shows sums equal to per capita amounts which are different for each of the three provinces.

3. SHORTCOMINGS OF THE FEDERAL DECISION

The solution chosen by the federal government is unsatisfactory and unacceptable in several respects. According to the underlying principle of the equalization program, the entitlement of a recipient province should not fall where no significant improvement in its relative fiscal capacity is noted. This principle has not been adhered to, as the $110 000 000 lump-sum payment granted to Québec will, nonetheless, mean a drop of more than $183 000 000 in its equalization entitlement in 1985-1986, compared with 1984-1985.

Moreover, the federal solution in no way recognizes the particular harm caused Québec by the change in the equalization formula imposed by the previous federal government in 1982. At present, it is expected that Québec will be the only province to receive less throughout the 1982-1987 period than it would have, had the equalization formula in effect in 1981-1982 been renewed in 1982. Québec's estimated loss is considerable, as it totals some $760 000 000, not taking into account the payments announced on April 1, while the other recipient provinces would have benefited from an overall gain of $440 000 000 under the new formula. As a result of the federal decision, the Atlantic provinces and Manitoba will receive an additional $175 000 000, bringing the total to $615 000 000. At the same time, Québec's loss of $760 000 000 is only partially offset by a $110 000 000 payment in 1985-1986, leaving a net loss of $650 000 000, i.e., slightly more than $98 per capita. Graphs III.1 and III.2 are especially eloquent in this respect.

The federal government's recent decision has confirmed modifications in the equalization program introduced in 1982, which were never approved by all the provinces. Contrary to the objective pursued by the equalization program, with an equalization entitlement which will remain below that obtained in 1983-1984 between now and the expiration of the 1982-1987 fiscal arrangements, Québec will be unable to maintain the level of services provided for Québec taxpayers in 1984-1985 without increasing their tax burden.

4. THE CIRCUMSTANCES SURROUNDING THE FEDERAL DECISION

The gouvernement du Québec finds unsatisfactory and unacceptable the solution recently chosen by the federal government in response to questions raised with respect to the equalization program. Indeed, this solution will only partially compensate Québec, which will be the only major loser in relation to what it would have received under the old equalization program. In its discussions with the federal government, the gouvernement du Québec has wanted to take into account the fact that the current federal deficit prevents Ottawa from fully compensating Québec; consequently, the latter reduced its claim to $450 000 000, in the form of a $300 000 000 payment in 1985-1986, and a $150 000 000 payment in 1986-1987.

There is no question of Québec's requesting special treatment, but of being treated fairly. Already, in the past, the very nature of fiscal arrangements was a source of instability in Québec government finances and a source of conflict in intergovernmental relations. As federal transfers have always been governed, in the main, by exclusively federal legislation, Ottawa was able to make the changes it wished when it felt it opportune to do so, or interpret such legislation so that conflicts were generally settled in its favour. It is for this reason that a financial conflict between Québec and Ottawa has developed over the years; it has penalized and continues to penalize Quebecers by obliging them to bear, in addition to losses due to equalization, a shortfall of several hundreds of millions of dollars in relation to the other provinces. Among the main questions arising from this disagreement, mention should be made of the following:

— the loss of about $85 000 000 incurred by Québec since Ottawa ceased recognizing Québec's costs related to bilingualism in post-secondary education as being subject to sharing;

— the nonuse of final data concerning GNP and population published by Statistics Canada for the purpose of calculating equalization and the financing of health and post-secondary education programs for the 1977-1978 to 1979-1980 fiscal years, which, for Québec, represents a shortfall of $108 000 000;

— the census underenumeration of Québec's population, which deprived Québec of about $440 000 000 in equalization and payments for financing health services and post-secondary education during the 1977-1982 period.

To Québec's losses arising from this conflict and equalization must be added losses of $1 292 000 000 from 1982-1983 to 1986-1987 resulting from the withdrawal of the revenue guarantee for financing post-secondary education and health services, and losses of $255 000 000 between 1983-1984 and 1986-1987 due to levelling off of growth in the federal contribution to post-secondary education.

In addition, on September 28, 1984, the federal government was presented with a $124 000 000 claim in stabilization payments by Québec for the fiscal year 1982-1983 on which it has yet to follow up. It should be noted that Québec's claim was made under Part II of the legislation on fiscal arrangements which stipulates that the own-source revenue of a province cannot drop from year to year, with a constant fiscal structure, and takes account of the March 1984 settlement between the federal government and British Columbia.

This situation as a whole and the resulting loss of revenue for Québec prevented the government from lessening the burden of Québec taxpayers as much as it would have liked, and even contribute toward increasing it. All these problems, moreover, are due to deficient rules in the field of federal-provincial relations which can only give rise to conflicts and confrontations between the two orders of government.

In 1982, for example, the changes to the equalization program were made unilaterally in spite of repeated requests on the part of the provinces to impose a one-year moratorium which would have made it possible to make a better assessment of the provinces' proposals and, perhaps, to reach a compromise.

Also, the latitude granted to the federal government under the present legislation has enabled it to make decisions of an arbitrary and often discriminatory nature such as that of 1982 where it decided to write off the debt of the provinces benefiting from equalization payments which had been granted surplus payments due to an overestimation of their population while Québec was given no compensation for the underestimation of its population.

Moreover, the present legislation contains no mechanisms which could guarantee the provinces a certain form of stability in the rules of the game. Although the federal government cannot abolish the health and post-secondary financing program without a three-year notice, there is nothing which prevents it from reducing its financial contribution or else from adding to existing constraints at any time. This was the case in 1983 when the 6% and 5% ceiling on the increase in federal contributions to the financing of post-secondary education for 1983-1984 and 1984-1985 was introduced and also when penalties for overcharging and user fees were imposed on provinces under the Canada Health Act.

Furthermore, the absence of rules with regard to negotiation procedures favoured a bilateral and sectoral approach as the best way for the federal government to reduce its transfer payments and thus make the provinces take on part of its deficit. After having defended the global health and post-secondary education formula in 1977, the federal government decided to split up these two programs in 1983, which made way for its imposing the 6% and 5% ceiling in the financing of post-secondary education. Also, the recent discussions undertaken by the Secretary of State on these programs may well, if not reduce transfer payments, at least add to the present constraints with which the provinces have to cope in determining their budgetary priorities This does not respect the schedule of fiscal arrangements which normally cover a five-year period.

On the whole, the legislation on fiscal arrangements has a determining effect on the financial position of the provinces although they have little or no say with regard to its content or to its management by the federal government. In any case, most federal decisions in the past have been either unilateral, discriminatory or arbitrary. This intervention ran counter to the principle of the financial responsibility of the provinces with respect to their constitutional competence and perpetuated uncertainty in the long run about the transfer structure.

5. QUÉBEC'S POSITION

With reference to the latest federal decision

Beyond recognizing the principle of equalization and its importance as a vital element in the proper functioning of Canadian Confederation, Québec has always maintained that it is ultimately the intrinsic quality of the equalization formula which, in the end, determines to what extent the equalization program's objective is attained. Federal government initiatives have not always led to the solution of problems inherent in the equalization formula introduced in 1982, and which mostly result from the fact that it has been made possible to impose it on the provinces because of the lack of rules providing for the provinces' agreement in the legislation on fiscal arrangements.

By announcing his decision last April 1, the federal Minister of Finance indicated his intention of launching discussions this year which should lead to the renewal of various programs of transfers to the provinces governed by the legislation on fiscal arrangements. Québec feels that these discussions should deal, above all, with the replacement of the present equalization formula to allow the parties concerned to reach an agreement on a formula which corresponds more closely to the objectives pursued by the program and which is acceptable to the provinces and the federal government. In the meantime, Québec insists that discussions be pursued with a view to reaching a compromise concerning 1985-1986 and 1986-1987 equalization payments and the financial conflict between Québec and Ottawa, problems which result from inadequate mechanisms for amending and applying the legislation on fiscal arrangements.

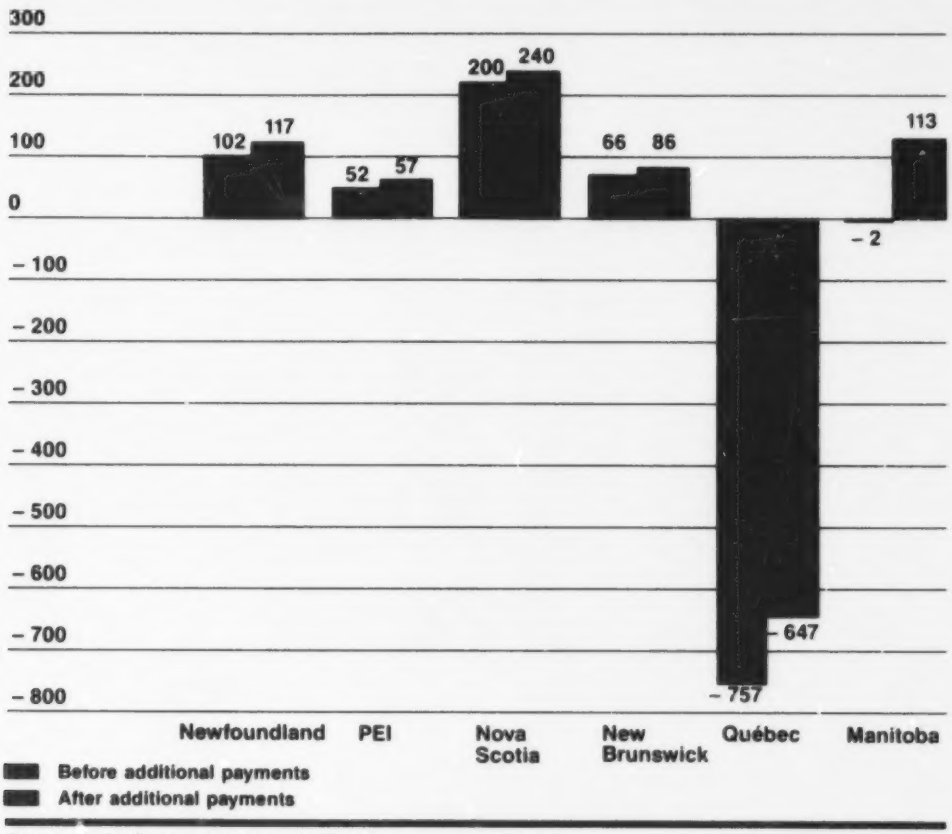
With reference to the fiscal arrangements

The gouvernement du Québec feels that real fiscal arrangements between the federal government and the provinces should be the object of a formal agreement between the two orders of government which would make them of a more permanent, stable and less arbitrary nature than the current arrangements. Should it not be possible to find a solution which would lead the federal government to grant the provinces the necessary financial leeway to enable them to assume their constitutional responsibilities, the federal government and the provinces should first agree on an amending formula for the 1987-1992 legislation on fiscal arrangements which would require the consent of the provinces affected by any changes made in the arrangements. Such a measure would have the advantage of ensuring the stability of fiscal arrangements.

The importance of federal transfers on a province's financial framework and even on its budget priorities should exclude any unilateral or sectoral change, especially if it occurs during the period covered by the fiscal arrangements.

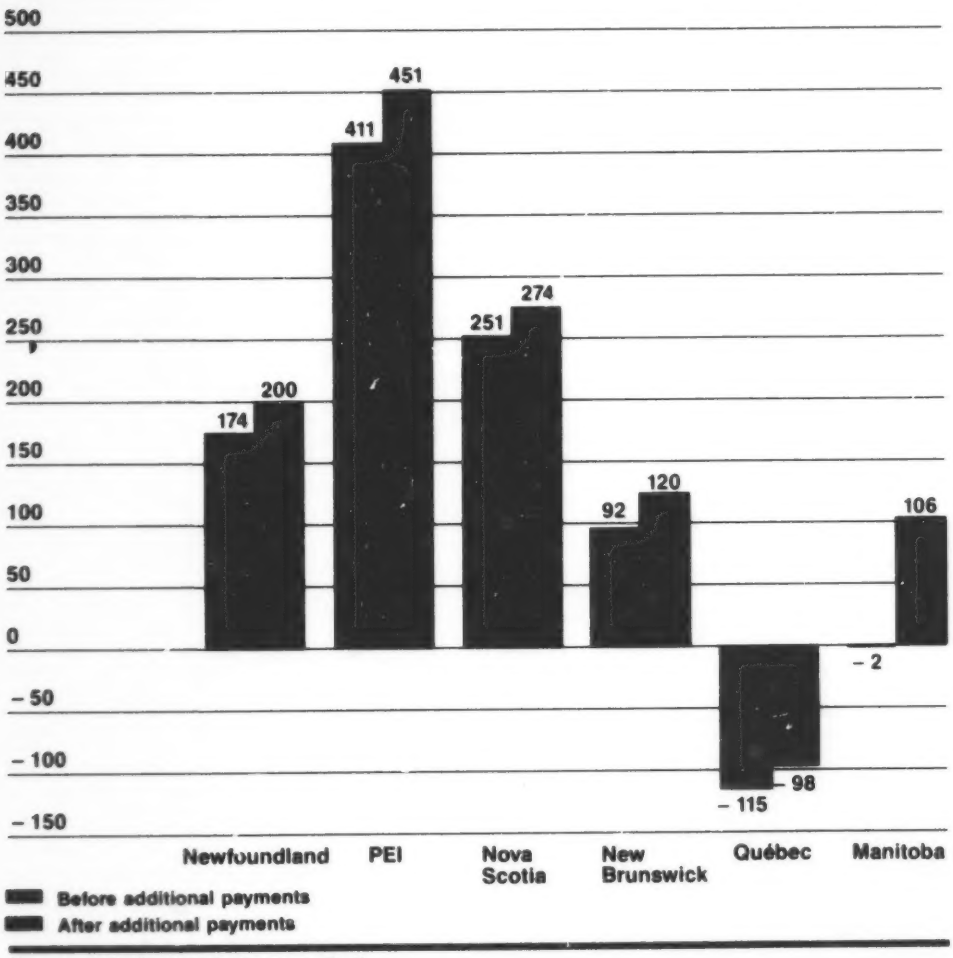
It is for this reason that the gouvernement du Québec recommends dealing with the principal programs of transfers to the provinces during multilateral, comprehensive negotiations and that changes which may become necessary as time goes on can only be implemented under the general framework of new legislation on fiscal arrangements, including an adequate amending mechanism.

Graph III.1
CUMULATIVE GAINS (+) OR LOSSES (–) RESULTING FROM THE REPLACEMENT OF THE 1977-1982 EQUALIZATION FORMULA BY THE NEW FORMULA
(in millions of dollars)



Source: Ministère des Finances du Québec.

Graph III.2
CUMULATIVE GAINS (+) OR LOSSES (–) RESULTING FROM THE REPLACEMENT OF THE 1977-1982 EQUALIZATION FORMULA BY THE NEW FORMULA (in per capita dollars)



Source: Ministère des Finances du Québec.

Table III-1
CUMULATIVE GAINS (+) OR LOSSES (–) RESULTING FROM THE REPLACEMENT OF THE 1977-1982 EQUALIZATION FORMULA BY THE NEW FORMULA

	In millions of dollars			In per capita dollars		
	Before additional payments	Additional payments	After additional payments	Before additional payments	Additional payments	After additional payments
Newfoundland	+102	+ 15	+117	+174	+ 26	+200
Prince Edward Island	+ 52	+ 5	+ 57	+411	+ 40	+451
Nova Scotia	+220	+ 20	+240	+251	+ 23	+274
New Brunswick	+ 66	+ 20	+ 86	+ 92	+ 28	+120
Québec	–757	+110	–647	–115	+ 17	– 98
Manitoba	– 2	+115	+113	– 2	+108	+106

Source: Ministère des Finances du Québec.

Table III-2
CHANGE IN EQUALIZATION ENTITLEMENTS IN COMPARISON WITH THE PREVIOUS YEAR AND COMPENSATION GUARANTEED BY THE ADDITIONAL PAYMENTS (in millions of dollars)

	1985-1986			1986-1987		
	Change in comparison with 1984-1985[1] (a)	Additional payments (b)	Compensation in % (c) = (b)/(a)	Change in comparison with 1985-1986[1] (a)	Additional payments (b)	Compensation en % (c) = (b)/(a)
Newfoundland	34	15	–[2]	18	—	—
Prince Edward Island	– 1	5	500 %	2	—	—
Nova Scotia	– 18	20	114 %	12	—	—
New Brunswick	28	20	–[2]	9	—	—
Québec	–293	110	38 %	18	—	—
Manitoba	– 72	50	70 %	–80	65	81 %

1 Equalization for the current year, not including additional payments, less equalization for the previous year, including additional payments, if any.
2 Does not apply because the equalization entitlements of these provinces would have increased in any case.
Source: Ministère des Finances du Québec.

Table III-3
CHANGE IN EQUALIZATION ENTITLEMENTS IN COMPARISON WITH THE PREVIOUS YEAR AND COMPENSATION GUARANTEED BY THE ADDITIONAL PAYMENTS
(in per capita dollars)

	1985-1986			1986-1987		
	Change in comparison with 1984-1985[1] (a)	Additional payments (b)	Compensation in % (c) = (b)/(a)	Change in comparison with 1985-1986[1] (a)	Additional payments (b)	Compensation in % (c) = (b)/(a)
Newfoundland	58	26	–[2]	31	—	—
Prince Edward Island	– 8	40	500 %	16	—	—
Nova Scotia	– 21	23	114 %	14	—	—
New Brunswick	39	28	–[2]	13	—	—
Québec	– 44	17	38 %	3	—	—
Manitoba	– 68	47	70 %	– 75	61	81 %

1 Equalization for the current year, not including additional payments, less equalization for the previous year, including additional payments, if any.
2 Does not apply because the equalization entitlements of these provinces would have increased in any case.
Source: Ministère des Finances du Québec.

Table III-4
QUÉBEC'S EQUALIZATION ENTITLEMENTS FOR THE 1981-1982 TO 1986-1987 PERIOD
(in millions of dollars)

	Former Fiscal Arrangements Legislation		New Fiscal Arrangements Legislation				Discrepancy	
	Formula[1]	Growth rate	Formula	Provisional payments[2]	Total	Growth rate	New formula less former formula	
							After additional payments	Before additional payments
1981-1982	2 490.0	—	2 490.0	—	2 490.0			
1982-1983	2 783.0	11.8%	2 400.4	381.6	2 782.0	11.7%	(1.0)	(1.0)
1983-1984	2 931.3	5.3%	2 557.4	419.2	2 976.6	7.0%	45.3	45.3
1984-1985	3 031.1	3.4%	2 674.4	399.6	3 074.0	3.3%	42.9	42.9
1985-1986	3 204.9	5.7%	2 780.9	110.0	2 890.9	(6.0%)	(314.0)	(424.0)
1986-1987	3 329.1	3.9%	2 909.3	—	2 909.3	0.6%	(419.8)	(419.8)
Total	**15 279.4**		**13 322.4**	**1 310.4**	**14 632.8**		**(646.6)**	**(756.6)**

1 This refers to the equalization program in effect at March 31, 1982, incorporating, however, the changes that have occurred since then in the definition of certain tax bases and the new classification of revenue liable to taxation.
2 For the years 1982-1983 to 1984-1985, this is the discrepancy between the amount guaranteed under paragraph 4.(7) of the fiscal arrangements legislation and the yield from the new equalization formula. For 1985-1986 and 1986-1987, these are the additional payments announced by the federal government on April 1, 1985.
Source: Ministère des Finances du Québec.